Michigan Deptartment of Treasury 496 (2-04) Auditing Procedures Report

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✓ Cit		pe wnsi	nip 🔲	Village	Other	CITY OF L	ent Name UDINGTON		Y .	County MASON	J
	Audit Date Opinion Date Date Accountant Report Submitted to State: 5/10/05										
Financia							government and render nting Standards Board nt in Michigan by the Mi				nents prepared
1. We	have com	plied	with the	e <i>Bulletin</i>	for the Au	dits of Local U	Inits of Government in M	<i>flichigan</i> as rev	/ised		
						to practice in					
We furth	ner affirm to nts and rec	he fo	ollowing. nendatio	"Yes" re	sponses ha	ave been discl	osed in the financial sta	itements, inclu	iding the n	otes, or	in the report of
You mus	st check the	е ар	plicable	box for ea	ach item be	elow.					
Yes	√ No	1.	Certai	n compor	nent units/f	unds/agencies	s of the local unit are ex	cluded from th	ne financial	statem	ents.
Yes	√ No		There	•			or more of this unit's u				
Yes	√ No	3.	There amend	are insta ded).	ances of n	on-compliance	with the Uniform Acc	counting and	Budgeting	Act (P./	A. 2 of 1968, ε
Yes	Yes No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or it requirements, or an order issued under the Emergency Municipal Loan Act.										
Yes	√ No	5 .	The locas ame	cal unit h	olds depo CL 129.91]	sits/investmen , or P.A. 55 of	nts which do not compl f 1982, as amended [Mo	y with statuto CL 38.1132]).	ry requiren	nents. (I	P.A. 20 of 1943
Yes	√ No	6.	The loc	cal unit ha	as been de	linquent in dis	tributing tax revenues th	nat were collec	ted for and	other tax	xing unit.
Yes	√ No		The loc	cal unit h	as violated	d the Constitu costs) in the c	ntional requirement (Art current year. If the plan quirement, no contributi	icle 9, Section	n 24) to fu	ind curr	ent year earne
Yes	✓ No	8.	The loc				as not adopted an app				
Yes	✓ No	9.	The loc	al unit ha	s not adop	ted an investn	nent policy as required i	by P.A. 196 of	1997 (MC	L 129.95	5).
We have	enclosed	the	followi	ng:				Enclosed	To Forwa		Not
The lette	r of comme	ents	and reco	ommenda	ations.			✓	7 01 W	irueu	Required
Reports	on individu	al fe	deral fin	ancial as	sistance pr	ograms (progi	ram audits).				
Single Audit Reports (ASLGU).											
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CITY OF LUDINGTON

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60 Harrow Lane Saginaw, Michigan 48603

(989) 791-1555 Fax (989) 791-1992

INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and Members of City Council City of Ludington, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Ludington, Michigan as of and for the year ended December 31, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Ludington's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

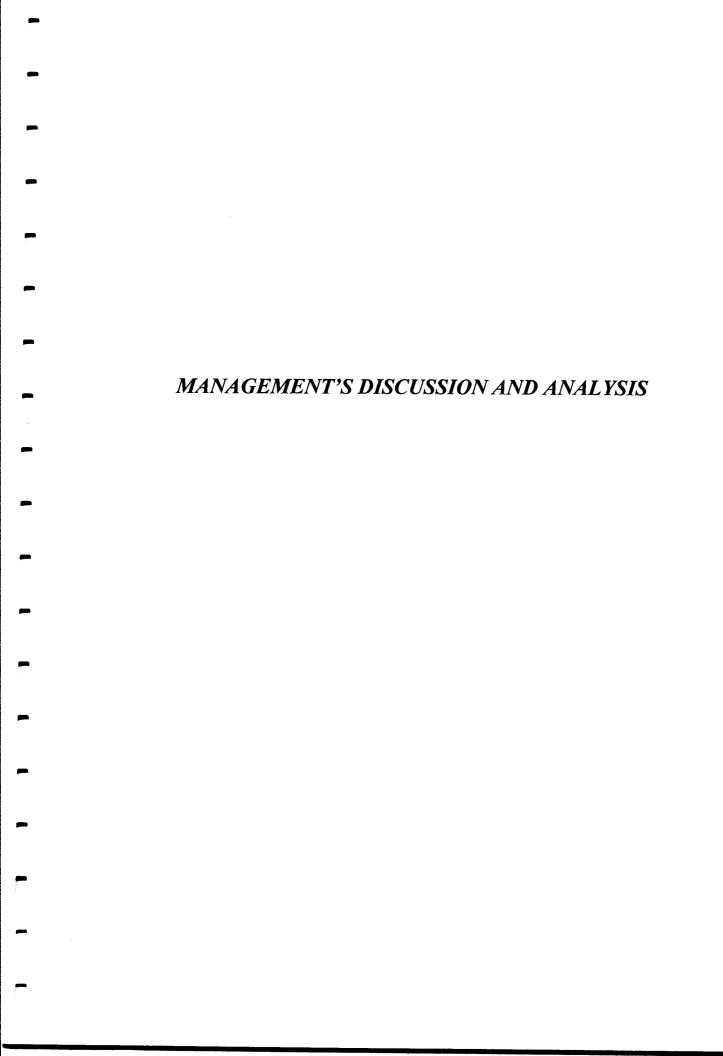
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Ludington, Michigan, as of December 31, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison schedules as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Ludington's basic financial statements. The accompanying other supplemental information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

As described in Note 14, the City has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, and related statements, as of January 1, 2003.

Betchianne & Co March 3, 2005



Overview of the Financial Statements:

The 2004 financial statements of the City of Ludington follow a different format than in previous years. These financial statements have been changed to comply with the reporting requirements of the Government Accounting Standards Board Statement No. 34. The basic financial statements include two kinds of statements that present different views of the City. The first two statements are government-wide financial statements that provide both short-term and long-term information about the City's status. The remaining statements are fund financial statements that focus on individual parts of the City's operations.

Government-wide Financial Statements:

The government-wide financial statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide financial statements report the City's net assets and how they have changed. Net assets – the difference between the City's assets and liabilities – are one way to measure the City's financial health.

The government-wide financial statements of the City are divided into three categories:

<u>Governmental Activities</u> – Most of the City's basic services are included here, such as the public safety, public works, and recreation departments, and general administration. Property taxes, Stateshared revenue, charges for services, grants, and transfers provide much of the funding.

Business-type Activities – The City charges fees to customers to help it cover the costs of certain services it provides. The City's sewer and water systems and marina are included here.

Component Units - The City includes the Downtown Development Authority in its report.

Fund Financial Statements:

The fund financial statements provide more detailed information about the City's most significant funds – not the City as a whole. Funds are accounting tools that the City uses to keep track of specific sources of funding and spending for particular purposes. Some funds are required by State law and bond covenants. The City Council establishes other funds to control and manage money for particular purposes.

The City has three kinds of funds:

<u>Governmental Funds</u> – Most of the City's basic services are included in governmental funds, which focus on how cash and other financial assets that can be converted to cash flow in and out, and the balance left at year end that is available for spending. The governmental fund statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

<u>Proprietary Funds</u> – Services to which the City charges customers a fee are generally reported in proprietary funds. Proprietary fund statements, like government-wide statements, provide both short-and long-term financial information.

<u>Fiduciary Funds</u> – The City is responsible for ensuring that the assets in these funds are used for their intended purposes. We exclude these activities from the government-wide financial statements because the City cannot use these assets to finance its operations.

Financial Highlights:

- Assets of the City exceeded its liabilities at the end of the fiscal year by \$26,506,951 (net assets), an increase of \$1,652,528 from the previous year. Of the \$26.5 million reported in net assets, approximately \$7.5 million may be used to meet the ongoing obligations to citizens and creditors (unrestricted net assets).
- Net assets of our governmental activities increased \$1,913,973, or 31.1 percent, while net assets of our business-type activities decreased \$261,445, or 1.4 percent.
- Unrestricted net assets for governmental activities are 53.9 percent of expenses. Unrestricted net assets for business-type activities exceed expenses.
- The General Fund reported revenues in excess of expenditures of \$641,429 and other financing uses of \$402,249 with a net change in fund balance of \$239,180 for the year. This resulted in a year end fund balance of \$1,276,065. Of this amount, \$1,239,003 is unreserved and undesignated, or 25.8 percent of General Fund expenditures.
- Other significant, unusual or material items affecting this year's revenues, expenses, or net assets are:
 - O The City received a federally funded grant in the amount of \$336,404 to reconstruct North Washington Avenue and North Harrison Street. The City spent a total of \$411,253 on these street projects.
 - O The City received \$849,650 from the sale of the old City Hall property. Proceeds from this sale were used to repay West Shore Bank \$816,050 for a loan the City incurred to construct the new Department of Public Works (DPW) building. In 2004, the City spent \$1,462,699 on constructing the new DPW building.
 - O The City received grants totaling \$53,000 towards the construction of a paved pathway in Cartier Park, which had a total construction cost of \$102,930.
 - o In 2004, the City received \$22,356 in private contributions towards the construction of an addition to the Senior Center building. The City spent \$98,656 to construct the addition.

The City as a Whole:

The City's combined net assets are \$26.5 million at December 31, 2004. Business-type activities make up \$18.4 million and governmental activities make up \$8.1 million of the total. Future reports will provide an analysis of comparative data from the statement of net assets and statement of activities. Comparative data is not required during the first year of reporting under GASB No. 34, and therefore, a comparative condensed statement of net assets and condensed statement of activities is not part of the management's discussion and analysis.

City of Ludington - Net Assets:

As noted earlier, the City's assets exceed its liabilities at the end of the fiscal year by \$26,506,951 (net assets). However, a major portion (64.8 percent) of the City's net assets represents its investment in capital assets (e.g., land, infrastructure, buildings, and equipment) less any related debt used to acquire or construct these assets. The City uses these assets to provide services to its citizens; thus, these assets are not available for spending.

Unrestricted net assets of the City were \$7.5 million at the end of this year. This amount represents the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements.

Furthermore, the City is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

The following table depicts a condensed statement of net assets at December 31, 2004:

	Governmental Activities	Business-type Activities	Total
Assets:			
Current and other assets	\$ 7,047,027	\$ 5,708,447	\$ 12,755,474
Capital assets	6,914,473	<u>13,456,620</u>	20,371,093
Total assets	13,961,500	19,165,067	33,126,567
Liabilities:			
Long-term liabilities	2,720,293	611,336	3,331,629
Other liabilities	3,173,313	114,674	3,287,987
Total liabilities	5,893,606	726,010	6,619,616
Net assets:			
Invested in capital assets, net of related debt	4,274,473	12,881,620	17,156,093
Restricted	903,541	978,267	1,881,808
Unrestricted	2,889,880	4,579,170	7,469,050
Total net assets	\$ 8,067,894	\$ 18,439,057	\$ 26,506,951

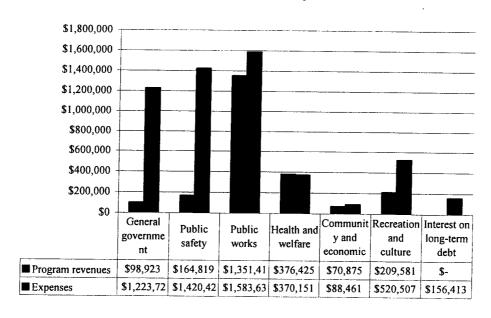
The following table shows the changes in net assets for 2004:

	Governmental Activities	Business-type Activities	Total
Revenues:			
Program revenues:			
Charges for services	\$ 641,994	\$ 2,930,499	\$ 3,572,493
Operating grants and contributions	1,271,278	-,,,,,,	1,271,278
Capital grants and contributions	358,765	_	358,765
General revenues:	223,732		330,703
Property taxes and payments in lieu of property taxes	2,983,956	_	2,983,956
Franchise taxes	36,840	_	36,840
State revenue sharing - sales tax	846,939	_	846,939
Investment earnings	97,818	83,365	181,183
Miscellaneous	33,827	-	33,827
Total revenues	6,271,417	3,013,864	9,285,281
Expenses:			
General government	1,223,724	-	1,223,724
Public safety	1,420,422	•	1,420,422
Public works	1,583,635	-	1,583,635
Health and welfare	370,151	-	370,151
Community and economic development	88,461	•	88,461
Recreation and culture	520,507	-	520,507
Interest on long-term debt	156,413	-	156,413
Sewer	•	1,177,367	1,177,367
Water	-	1,257,569	1,257,569
Marina	-	665,965	665,965
Total expenses	5,363,313	3,100,901	8,464,214
Excess (deficiency) of revenues over expenditures	908,104	(87,037)	821,067
Contributions, Special Items, and Transfers:			
Contributions to principal of permanent funds	8,620	-	8,620
Special item - Sale of assets	822,841	-	822,841
Transfers	174,408	(174,408)	·
Total contributions, special items, and transfers	1,005,869	(174,408)	831,461
Increase (decrease) in net assets	1,913,973	(261,445)	1,652,528
Net assets, beginning of year	6,153,921	18,700,502	<u>24,854,423</u>
Net assets, end of year	\$ 8,067,894	\$ 18,439,057	\$ 26,506,951
·	,,	+ 10,155,057	<u> </u>

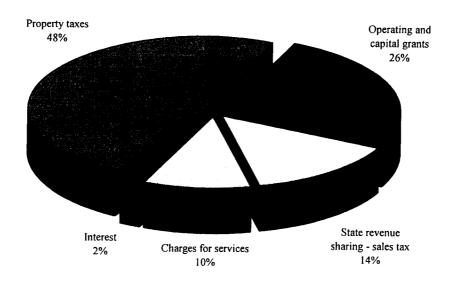
Governmental Activities:

For the year ended December 31, 2004, revenues for the City's governmental activities totaled \$6.3 million. Property taxes accounted for 48 percent of the total revenues, or \$3 million. State-shared revenues were 14 percent, or \$850 thousand; these revenues continue to be a concern as to future funding levels.

Governmental Activities Program Revenues and Expenses



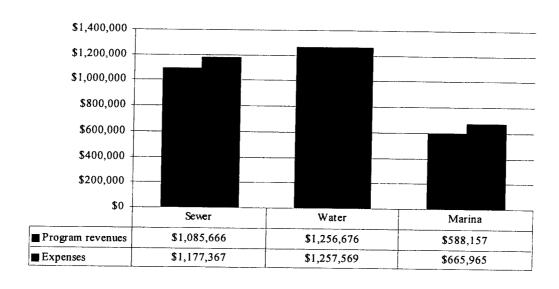
Governmental Activities Revenue by Source



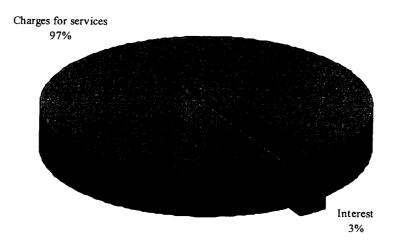
Business-type Activities:

For the year ended December 31, 2004, revenues for business-type activities were \$3 million. Charges for services were 97 percent of gross revenues, or \$2.9 million. Interest income on investments was 3 percent of gross revenues, or \$100 thousand.

Business-type Activities
Program Revenues and Expenses



Business-type Activities Revenue by Source



The City has three business type-activities: the sewer and water systems and marina. In total, these three activities generated \$2,930,499 in charges for services, and incurred \$3,100,901 in expenses. In addition, general revenues for business-type activities were \$83,365. There was \$174,408 in transfers to other funds. The City's business-type activities experienced a decrease in net assets of \$261,445 for the year.

Capital Assets and Debt Administration:

At the end of 2004, the City has \$31,258,079 invested, before depreciation, in a wide range of capital assets, including land, land improvements, buildings and improvements, equipment, sewer and water lines, and marina. In addition, for the first time, the City is reporting infrastructure assets if any were acquired since January 1, 2004. Infrastructure assets include roads, bridges, sidewalks, storm drains, and other immovable assets. The value of the infrastructure assets, net of depreciation, contained in this report is \$480,364 at December 31, 2004.

Debt of \$2,640,000 related to the construction and acquisition of the above-mentioned capital assets is reported as a liability in the governmental activities in the statement of net assets.

Debt related to the sewer and water systems totaling \$575,000 is recorded as a liability in the business-type activities in the statement of net assets.

The City's Funds:

The fund financial statements begin on page 14 and provide detailed information on the most significant governmental funds – not the City as a whole. The City Council creates funds to help manage money for special purposes, as well as to show accountability for certain activities, such as special property tax millages. The City's major governmental funds for 2004 include the General Fund, Major Street Fund, and Local Street Fund.

The City's governmental funds reported combined fund balance of \$2,583,964 for this year, an increase of \$333,724 from last year. Included in this increase is the General Fund's net change in fund balance of \$239,180, which consists of an excess of revenues over expenditures of \$641,429 less net transfers to other funds of \$402,249.

General Fund Budgetary Highlights:

Differences between the original and final amended budgets for revenues and expenditures were relatively minor, except:

- The City received \$849,650 from the sale of the old City Hall property.
- The City paid \$816,050 to West Shore Bank to repay a loan issued to construct the new Department of Public Works building.
- The City spent \$51,000 less than budgeted in the Police Department's budget, as one of the police officers on medical leave did not return to work as expected.

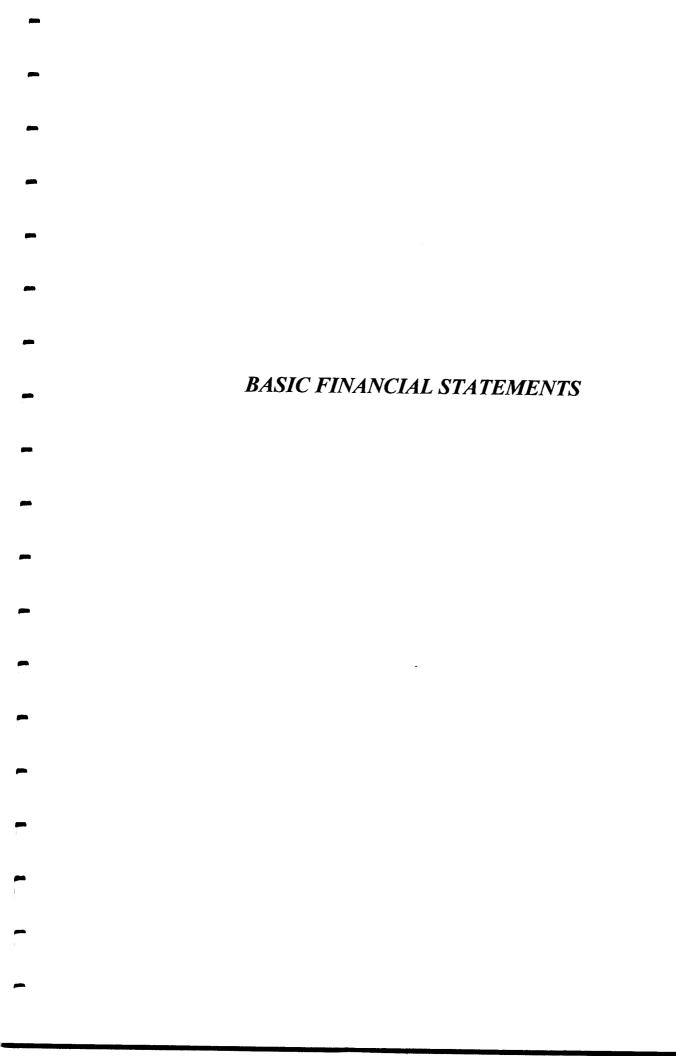
Economic Factors:

The City continues to maintain positive fund balances in each of its funds. However, concerns arise when considering the revenues and expenses that the City is facing in upcoming years. The major sources of revenue for the City are property taxes, State-shared revenues, and charges for services. These sources have certain limitations outside of the City's control – taxable value of property in the City has remained flat, resulting in small increases in property taxes; the State of Michigan has experienced budget deficits and has reduced revenue-sharing payments to local governments to help in reducing their deficit; and the economy has restricted the City in what it can charge its customers. In comparison, certain expenses continue to rise at a rate higher than inflation, such as health insurance, utility costs, and gasoline expenses.

We are continuing to plan for the long term, and will continue to balance the budgets through controls over spending, while striving to provide the City's residents with the same level of service to which they have become accustomed.

Contacting the City's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact John E. Shay, City Manager, 400 S. Harrison Street, Ludington, Michigan 49431.



STATEMENT OF NET ASSETS

December 31, 2004

	<i>Pr</i>				
	Governmental	Business-type		- c	omponent
	Activities	Activities	Total	Unit - DDA	
Assets:					
Cash and cash equivalents	\$ 2,991,966	\$ 2,728,671	\$ 5,720,637	\$	36,156
Investments	443,096	1,211,263	1,654,359	Ψ	30,130
Receivables	3,440,835	557,054	3,997,889		30,224
Prepaid items and other assets	75,735	57,184	132,919		30,224
Inventory	88,258	176,008	264,266		_
Restricted cash and cash equivalents	7,137	978,267	985,404		_
Capital assets:	,,,,,,	, , , , , , , , , , , , , , , , , , ,	705,104		
Nondepreciable capital assets	163,580	867,055	1,030,635		_
Depreciable capital assets, net	6,750,893	12,589,565	19,340,458		_
Total assets	13,961,500	19,165,067	33,126,567		66,380
Liabilities:					
Accounts payable and accrued expenses	77,367	33,228	110,595		9,329
Deferred revenue	3,095,946	81,446	3,177,392		26,255
Long-term liabilities:	5,0,5,5,10	01,110	3,177,372		20,233
Due within one year	95,000	155,000	250,000		_
Due in more than one year	2,625,293	456,336	3,081,629		<u>-</u>
Total liabilities	5,893,606	726,010	6,619,616		35,584
Net assets:					
Invested in capital assets, net of related debt	4,274,473	12 991 620	17.156.002		
Restricted for:	4,274,473	12,881,620	17,156,093		•
Debt service	1	302,250	202 251		
Streets	668,098	302,230	302,251 668,098		-
Nonexpendable cemetery principal	235,442	-	235,442		-
Equipment replacement	255,442	676,017	676,017		-
Unrestricted	2,889,880	4,579,170	7,469,050		20.70 <i>6</i>
					30,796
Total net assets	\$ 8,067,894	\$ 18,439,057	\$ 26,506,951	\$	30,796

STATEMENT OF ACTIVITIES

Year Ended December 31, 2004

			Operating	Capital	- Net
		Charges for	Grants and	Grants and	(Expense)
	Expenses	Services	Contributions	Contributions	Revenue
Functions/Programs					
PRIMARY GOVERNMENT:					
Governmental activities:					
General government	\$ 1,223,724	\$ 98,923	\$ -	\$ -	\$ (1,124,801)
Public safety	1,420,422	121,571	43,248	_	(1,255,603)
Public works	1,583,635	284,100	730,910	336,404	(232,221)
Health and welfare	370,151	10,713	343,351	22,361	6,274
Community and economic development	88,461	2,300	68,575	,-,-	(17,586)
Recreation and culture	520,507	124,387	85,194	_	(310,926)
Interest on long-term debt	156,413		-	-	(156,413)
Total governmental activities	5,363,313	641,994	1,271,278	358,765	(3,091,276)
Business-type activities:					
Sewer	1,177,367	1,085,666	_	_	(91,701)
Water	1,257,569	1,256,676	-	-	(893)
Marina	665,965	588,157	-	-	(77,808)
Total business-type activities	3,100,901	2,930,499	**		(170,402)
Total primary government	\$ 8,464,214	\$ 3,572,493	\$ 1,271,278	\$ 358,765	\$ (3,261,678)
COMPONENT UNIT:					
Downtown development authority	\$ 138,283	\$ -	\$ 42,348	\$	\$ (95,935)
Total component unit	\$ 138,283	\$ -	\$ 42,348	\$ -	\$ (95,935)

continued

	<i>Pr</i> .			
		Business-		- Component
	Governmental	type		Ûnit -
	Activities	Activities	<u>Total</u>	DDA
Changes in net assets				
Net (Expense) Revenue	\$ (3,091,276)	\$ (170,402)	\$ (3,261,678)	\$ (95,935)
General revenues:				
Taxes:				
Property taxes, levied for general purpose	2,973,285	_	2,973,285	25,472
Payment in lieu of property taxes	10,671	-	10,671	,
Franchise taxes	36,840	-	36,840	_
Grants and contributions not restricted to			,	
specific programs	846,939	_	846,939	-
Unrestricted investment earnings	97,818	83,365	181,183	1,748
Miscellaneous	33,827	-	33,827	-
Contributions to principal of permanent funds	8,620	-	8,620	-
Special item - Gain on sale of capital asset	822,841	-	822,841	-
Transfers	174,408	(174,408)	-	
Total general revenues, contributions,				
special items and transfers	5,005,249	(91,043)	4,914,206	27,220
Change in net assets	1,913,973	(261,445)	1,652,528	(68,715)
Net assets, beginning of year	6,153,921	18,700,502	24,854,423	99,511
Net assets, end of year	\$ 8,067,894	\$ 18,439,057	\$ 26,506,951	\$ 30,796

GOVERNMENTAL FUNDS

BALANCE SHEET

December 31, 2004

	General Fund		Street Street Govern		Street Street Governmenta		Street		Total Governmental Funds
Assets:									
Cash and cash equivalents	\$ 789,026	5 \$	472,467	\$	122,861	\$	571,208	\$ 1,955,562	
Investments	260,050		-	Ψ	-	Ψ	371,200	260,050	
Taxes receivable	3,057,495		_		_		_	3,057,495	
Accounts receivable	43,560		74		_		_	43,634	
Special assessments receivable	8,775				_		_	8,775	
Notes receivable	-,		-		_		19,568	19,568	
Interest receivable	7,895	;	2,991		778		2,049	13,713	
Due from other governmental units	174,787		32,008		12,974		70,161	289,930	
Inventory	4,385		34,792		12,7 /		70,101	39,177	
Prepaid expenditures	32,677		,.,_		_		100	32,777	
Restricted cash and cash equivalents	7,137						-	7,137	
Total assets	<u>\$ 4,385,787</u>	\$	542,332	\$	136,613	\$	663,086	\$ 5,727,818	
Liabilities and Fund Balances: Liabilities: Accounts payable and accrued									
expenses	\$ 6,189	\$	(47)	ď		Φ.	22.5		
Due to other governmental units	1,104	Ф	(47) 10,894	Э	-	\$	225	\$ 6,367	
Deposits payable	1,104		10,894		-		-	11,998	
Deferred revenue	3,101,229		-		-		23,060	1,200	
Total liabilities	3,109,722		10,847		-		23,285	3,124,289 3,143,854	
Fund balances: Reserved for:									
Inventory	4,385		34,792		-		-	39,177	
Prepaid expenditures	32,677		-		-		100	32,777	
Debt service	-		-		-		1	1	
Nonexpendable cemetery principal Unreserved:	-		-		-		235,442	235,442	
Undesignated, reported in:									
General fund	1,239,003		_		_		_	1,239,003	
Special revenue funds	-,,,,,,,,,		496,693		136,613		156,845	790,151	
Capital projects funds	-				-		247,413	247,413	
Total fund balances	1,276,065		531,485		136,613		639,801	2,583,964	
Total liabilities and fund balances	\$ 4,385,787	\$	542,332	\$	136,613	\$	663,086	\$ 5,727,818	

RECONCILIATION OF FUND BALANCES OF THE GOVERNMENTAL FUNDS TO NET ASSETS OF GOVERNMENTAL ACTIVITIES

December 31, 2004

Total fund balances for governmental funds		\$ 2,583,964
Total net assets reported for governmental activities in the statement of of net assets is different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.		
Governmental capital assets	4,318,506	
Less accumulated depreciation	(794,337)	3,524,169
Interest payable in the governmental activities are not payable from current resources and therefore are not reported in the governmental		
funds.		(59,232)
Deferred revenues reported in the governmental funds are recognized as revenues for the governmental activities.		28,343
Long-term liabilities are not due and payable in the current year and therefore are not reported in the governmental funds:		
Bonds payable	(2,640,000)	
Compensated absences payable	(76,974)	(2,716,974)
The assets and liabilities of internal service funds are included in governmental		
activities in the statement of net assets.	-	4,707,624
Net assets of governmental activities	9	8 8,067,894

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

Year Ended December 31, 2004

	General Stree		Major Street Fund	Local Street Fund		Nonmajor Governmental Funds		Total Governmental Funds	
Revenues:									
Property taxes	\$ 2,983,956	\$	_	9	S -	\$	_	\$	2,983,956
Licenses and permits	48,541	Ť	-	•	_	Ψ	_	Ψ	48,541
Federal grants	26,395		336,404		_		253,457		616,256
State grants	875,815		493,975		198,986		80,503		1,649,279
Contributions from other units	10,000		´-				82,105		92,105
Charges for services	461,362		_		_		69,282		530,644
Fines and forfeits	33,725						-		33,725
Interest and rents	54,359		8,719		2,726		7,519		73,323
Other revenue	949,038		5,429		_,,		107,363		1,061,830
Total revenues	5,443,191	_	844,527	_	201,712		600,229		7,089,659
Expenditures: Current									
General government	1,120,077		-		_		-	1	,120,077
Public safety	1,339,573		-		-		3,499		,343,072
Public works	979,443		276,156		250,584		-		,506,183
Health and welfare	-		-		-		365,707		365,707
Community and economic development	66,608		-		-		15,247		81,855
Recreation and culture	374,928		-		-		120,888		495,816
Other	82,146		-		-		-		82,146
Capital outlay	22,937		509,863		-		206,585		739,385
Debt service							,		, ,
Principal	800,000		-		-		60,000		860,000
Interest and charges	16,050		-		-		145,644		161,694
Total expenditures	4,801,762		786,019		250,584	_	917,570	6	,755,935
Excess (deficiency) of									
revenues over expenditures	641,429		58,508	***	(48,872)		(317,341)		333,724
Other financing sources (uses):									
Transfers in	4,900		-		114,500		383,449		502,849
Transfers out	(407,149)		(90,800)				(4,900)		502,849)
Total other financing sources (uses)	(402,249)		(90,800)		114,500		378,549		•
Net change in fund balances	239,180		(32,292)		65,628		61,208		333,724
Fund balances, beginning of year,									
as restated	1,036,885		563,777		70,985		578,593	2.	250,240
Fund balances, end of year	\$ 1,276,065	\$	531,485	\$	136,613	\$			583,964
									7

The accompanying notes are an integral part of these financial statements.

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year Ended December 31, 2004

Net change in fund balances - total governmental funds	\$	333,724
Total change in net assets reported for governmental activities in the statement of activities is different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is depreciated over their estimated useful lives and reported as depreciation expense.		
Capital outlay 696,8	13	
Less depreciation expense (127,47)		
Less basis in capital assets sold (26,80	-	542,528
Revenues in the statement of activities that do not provide current financial resources are reported as deferred revenue in the funds.		13,673
Repayments of principal on capital leases and contracts is an expenditure in governmental funds, but the payment reduces long-term liabilities in the statement of net assets.		860,000
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
Change in compensated absences payable 1,679	9	
Change in accrued interest on bonds payable 5,28		6,960
The net revenue (expense) of the internal service fund is reported with		
governmental activities.		157,088
Change in net assets of governmental activities	<u>\$</u> _1	1,913,973

STATEMENT OF NET ASSETS

December 31, 2004

			Governmental Activities								
		Sewer Fund		Water Fund		Marina Fund		Total		Internal Service Fund- Motor Pool	
Assets:	_		•		•						
Current assets:											
Cash and cash equivalents	\$,		1,616,283		\$ 739,281		, ,,	\$	919,122	
Investments Accounts receivable		294,851		674,847		241,565		1,211,263		300,328	
Accounts receivable Accrued interest receivable		243,003 7,579		281,902		950		525,855		-	
Inventory		53,090		17,410 109,204		6,210 13,714		31,199 176,008		7,720	
Prepaid expenses		27,567		22,781		6,836		57,184		49,081	
Total current assets	_	999,197	-		-		-			42,958	
Total cultent assets	_	999,197	_	2,722,427	-	1,008,556	_	4,730,180		1,319,209	
Noncurrent assets:											
Restricted cash and cash equivalents Capital assets:		529,254		449,013		-		978,267		-	
Nondepreciable capital assets		72,415		3,247		791,393		867,055		4,250	
Depreciable capital assets, net	_	5,984,893		5,196,415	_	1,408,257		12,589,565		3,386,054	
Total noncurrent assets		6,586,562		5,648,675	_	2,199,650		14,434,887		3,390,304	
Total assets	_	7,585,759	_	8,371,102	_	3,208,206		19,165,067		4,709,513	
Liabilities: Current liabilities: Accounts payable and accrued expenses		4,088		19,687		7,053		30,828		(1,430)	
Deposits payable		-		2,400		~		2,400		-	
Deferred revenue		10.505				81,446		81,446		-	
Compensated absences payable		10,785		21,744		3,807		36,336		3,319	
Current portion of long-term debt	_	85,000	_	70,000	_		_	155,000		-	
Total current liabilities		99,873		113,831	_	92,306		306,010		1,889	
Noncurrent liabilities:											
Long-term debt		90,000		330,000		-	_	420,000		-	
Total noncurrent liabilities	_	90,000		330,000	_	-	_	420,000		-	
Total liabilities		189,873		443,831		92,306		726,010		1,889	
Net assets:											
Invested in capital assets,											
net of related debt		5,882,308		4,799,662		2,199,650		12,881,620	3	,390,304	
Restricted for:											
Debt service		202,250		100,000		-		302,250		-	
Equipment replacement		327,004		349,013				676,017		-	
Unrestricted		984,324		2,678,596	_	916,250		4,579,170	1	,317,320	
Total net assets	\$	7,395,886	\$	7,927,271	<u>\$</u>	3,115,900	\$ 1	18,439,057	\$ 4	,707,624	

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS Year Ended December 31, 2004

		Major Ente	rprise Funds		Governmental <u>Activities</u>
	Sewer Fund	Water Fund	Marina Fund	<u> Total</u>	Internal Service Fund- Motor Pool
Operating revenues:					
Charges for services	\$ 1,084,281	\$ 1,226,257	\$ 586,591	\$ 2,897,129	\$ -
Equipment rental		-	. -	-	636,832
Other	1,385	2,362	1,566	5,313	60,127
Total operating revenues	1,085,666	1,228,619	588,157	2,902,442	696,959
Operating expenses:					
Personnel	265,116	447,169	106,459	818,744	135,946
Fringe benefits	122,882	202,985	29,732	355,599	62,002
Supplies	85,348	55,440	249,332	390,120	134,960
Contracted services	208,765	80,866	53,230	342,861	32,522
Administrative expense	62,800	62,800	37,200	162,800	30,000
Telephone	3,069	7,356	3,717	14,142	288
Transportation	601	-	163	764	-
Dues and membership fees	225	231	450	906	_
Conferences and workshops	2,240	855	199	3,294	-
Printing and publishing	-	-	1,573	1,573	_
Insurance	40,756	40,756	12,713	94,225	57,160
Utilities	155,375	88,162	16,915	260,452	- 1,700
Repair and maintenance	27,494	62,826	44,968	135,288	89,740
Building rent	-	-	-	-	47,200
Equipment rental	33,460	48,501	6,570	88,531	_
Other services and supplies	7	98	20,305	20,410	51
Depreciation	156,424	140,715	82,439	379,578	150,764
Total operating expenses	1,164,562	1,238,760	665,965	3,069,287	740,633
Operating income (loss)	(78,896)	(10,141)	(77,808)	(166,845)	(43,674)

continued

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS, CONTINUED

Year Ended December 31, 2004

	Major Enterprise Funds						GovernmentalActivities			
		Sewer Fund	_	Water Fund		Marina Fund		Total	Ser	nternal vice Fund- otor Pool
Non-operating revenues (expenses):										
Interest income	\$	27,594	\$	35,846	\$	19,925	\$	83,365	\$	26,354
Rental income Interest expense		(12,805)	_	28,057 (18,809)		-		28,057 (31,614)		<u>-</u>
Total non-operating revenues (expenses)		14,789		45,094	_	19,925		79,808		26,354
Net income (loss) before operating transfers		(64,107)		34,953	No.	(57,883)		(87,037)		(17,320)
Operating transfers:										
Transfer from other funds Transfer to other funds		- (24,408)		(150,000)		-		- (174,408)		174,408
Total operating transfers		(24,408)		(150,000)		_		(174,408)		174,408
Net income (loss)		(88,515)		(115,047)		(57,883)		(261,445)		157,088
Net assets, beginning of year,										
as restated		7,484,401		8,042,318	_3	,173,783	1	8,700,502	4	,550,536
Net assets, end of year	\$ 7	7,395,886	<u>\$</u>	7,927,271	<u>\$3</u>	,115,900	<u>\$ 1</u>	8,439,057	\$ 4	,707,624

STATEMENT OF CASH FLOWS

Year Ended December 31, 2004

		Governmental Activities			
	Sewer Fund	Water Fund	Marina Fund	Total	Internal Service Fund- Motor Pool
Cash flows from operating activities:					
Cash received from customers Cash received from interfund services	\$ 1,063,796	\$ 1,221,289	\$ 595,797	\$ 2,880,882	\$ 65,723
Cash payments to employees	(266,014)	(444.665)	(105.070)	(0.5055)	636,832
Cash payments to suppliers for	(200,014)	(444,665)	(105,278)	(815,957)	(136,320)
goods and services	(738,065)	(630,174)	(472.082)	(1.842.221)	(464.770)
-	(738,003)	(030,174)	(473,982)	(1,842,221)	(464,770)
Net cash provided (used) by operating activities	59,717	146,450	16,537	222,704	101,465
Cash flows from non-capital					
financing activities:					
Operating transfers in					151 400
Operating transfers out	(24,408)	(150,000)	-	(174.400)	174,408
	(24,408)	(130,000)		(174,408)	
Net cash provided (used) by					
non-capital financing activities	(24,408)	(150,000)	-	(174,408)	174,408
Cash flows from capital and related					
financing activities:					
Acquisition of capital assets	(211,244)	(42,647)	(6,876)	(260,767)	(965,058)
Principal payments	(80,000)	(65,000)	-	(145,000)	-
Interest paid	(12,805)	(18,809)	-	(31,614)	-
Collections of rent		28,057		28,057	
Net cash provided (used) by capital					
and related financing activities	(304,049)	(98,399)	(6,876)	(409,324)	(965,058)
Cash flows from investing activities:					
Net expenditures for investments	31,766	(40,029)	(25,556)	(33,819)	127,094
Interest received	27,594	35,846	19,925	83,365	26,354
Net cash provided by					
investing activities	59,360	(4,183)	(5,631)	49,546	152 440
		(4,105)	(3,031)	49,340	153,448
Net increase (decrease) in cash and cash equivalents	(209,380)	(106,132)	4,030	(311,482)	(535,737)
Cash and cash equivalents,					
beginning of year	1,111,741	2,171,428	735,251	4,018,420	1,454,859
Cash and cash equivalents, end of year	\$ 902,361	2,065,296	\$ 739,281	\$ 3,706,938	\$ 919,122

The accompanying notes are an integral part of these financial statements.

continued

STATEMENT OF CASH FLOWS, CONTINUED

Year Ended December 31, 2004

	Major Enterprise Funds						GovernmentalActivities			
	Sewer Fund		.,		Marina Fund		Total		Internal Service Fund- Motor Pool	
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:										
Operating income (loss)	\$	(78,896)	\$	(10,141)	\$	(77,808)	\$	(166,845)	\$	(43,674)
Adjustments:				•		, , ,		, , ,		(, ,
Depreciation		156,424		140,715		82,439		379,578		150,764
Changes in assets and liabilities:						,				100,707
Accounts receivable		(24,466)		(9,697)		2,800		(31,363)		_
Accrued interest receivable		2,596		2,367		519		5,482		5,596
Inventory		10,060		3,429		(3,306)		10,183		11,807
Prepaid expenses		(6,014)		(894)		67		(6,841)		(13,593)
Accounts payable and accrued				, ,				(-,)		(10,0)0)
expenses		911		18,167		6,324		25,402		(9,061)
Deferred revenue		-		´-		4,321		4,321		(2,001)
Compensated absences payable		(898)		2,504		1,181		2,787		(374)
Net cash provided (used) by										
operating activities	<u>\$</u>	59,717	\$	146,450	<u>\$</u>	16,537	<u>\$</u>	222,704	\$	101,465

FIDUCIARY FUNDS

STATEMENT OF NET ASSETS

December 31, 2004

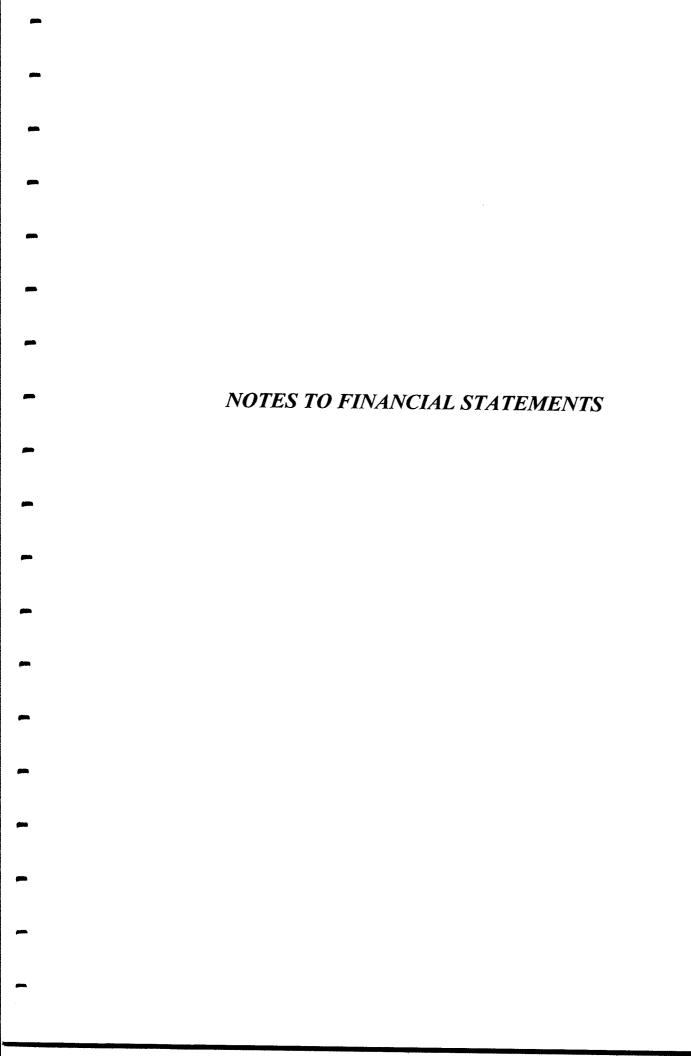
	Police		
	Pension TrustFund	Agency Funds	Total
Assets:			
Cash and cash equivalents	\$ 108,099	\$ 4,288,373	\$ 4,396,472
Investments	3,160,343	-	3,160,343
Taxes receivable	212,309	-	212,309
Prepaid expense		15,179	15,179
Total assets	3,480,751	4,303,552	7,784,303
Liabilities:			
Accounts payable and accrued expenses	-	69,460	69,460
Due to other governmental units	-	4,234,092	4,234,092
Deferred revenue	212,309	-	212,309
Total liabilities	212,309	4,303,552	4,515,861
Net Assets:			
Unrestricted	3,268,442		3,268,442
Total net assets	\$ 3,268,442	<u> </u>	\$ 3,268,442

FIDUCIARY FUNDS

STATEMENT OF CHANGES IN NET ASSETS

Year Ended December 31, 2004

	Police Pension Trust <u>Fund</u>
Additions: Property taxes Employee and other contributions Investment income (loss)	\$ 165,652 37,618 204,460
Total additions Deductions:	407,730
Benefit payments Total deductions	428,432 428,432
Net increase (decrease)	(20,702)
Net assets, beginning of year Net assets, end of year	3,289,144 \$ 3,268,442



NOTES TO FINANCIAL STATEMENTS

December 31, 2004

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Ludington was incorporated in 1873 under the provisions of the Home Rule Act of the State of Michigan. The City operates a Council-Manager form of government and provides the following services as authorized by its charter: general administrative services, public safety, highway and street maintenance, health, culture, recreation and other governmental functions.

The accounting policies of the City of Ludington conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the significant accounting policies:

Reporting Entity:

As required by accounting principles generally accepted in the United States of America, the financial statements of the reporting entity include those of the City and its component units. In evaluating the City as a reporting entity, management has addressed all potential component units (traditionally separate reporting entities) for which the City may be financially accountable and, as such, should be included within the City's financial statements. The City (the primary government) is financially accountable if it appoints a voting majority of the organization's governing board and (1) it is able to impose its will on the organization or (2) there is a potential for the organization to provide specific financial burden on the City. Additionally, the primary government is required to consider other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The component units discussed below are included in the City's reporting entity because of their operational or financial relationship with the City.

Discretely Presented Component Units - The component unit column in the government-wide financial statements includes the financial data of the City's one component unit. This unit is reported in a separate column to emphasize that it is legally separate from the City. The component unit is described as follows:

Downtown Development Authority - The budgets and expenditures of the Downtown Development Authority must be approved by the City Council. The City also has the ability to significantly influence operations of the Downtown Development Authority.

Joint Ventures - The City participates in the "Western Mason County Fire District Authority," a joint venture with the Townships of Hamlin and Pere Marquette. The Authority was established on May 20, 1996 in accordance with state law 1988 P.A. 57 for the purpose of forming a joint fire commission for uniform and orderly control of fire protection, fire department functions (including vehicle purchase and insurance coverage), and financing within the territorial limits of the City of Ludington and the Townships of Hamlin and Pere Marquette. Complete financial statements for the Authority can be obtained from Pere Marquette Township at 1699 South Pere Marquette Highway, Ludington, Michigan.

December 31, 2004

Measurement Focus, Basis of Accounting, and Financial Statement Presentation:

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Government-wide Financial Statements:

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The statement of net assets and the statement of activities report information on all of the nonfiduciary activities of the primary government and its component units. These statements distinguish between activities that are governmental and those that are business-type activities. Internal service fund activity is eliminated to avoid "doubling up" revenues and expenses.

The statement of net assets presents governmental activities on a consolidated basis, using the economic resources measurement focus and accrual basis of accounting. This method recognizes all long-term assets and receivables as well as long-term debt and obligations. The City's net assets are reported in three parts (1) invested in capital assets, net of related debt, (2) restricted net assets, and (3) unrestricted net assets. The City first utilizes restricted resources to finance qualifying activities.

The statement of activities reports both the gross and net cost of each of the City's functions. The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues, fines, permits and charges, etc.). The statement of activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (property taxes, state sources and federal sources, interest income, etc.). The City does not allocate indirect costs. In creating the government-wide financial statements the City has eliminated interfund transactions.

The government-wide focus is on the sustainability of the City as an entity and the change in the City's net assets resulting from current year activities.

December 31, 2004

Fund Financial Statements:

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise fees, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met. Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. All other revenue items are considered to be measurable and available only when cash is received by the government.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the proprietary funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

Fiduciary funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Fiduciary funds are accounted for on a spending or economic resources measurement focus and the accrual basis of accounting as are the proprietary funds.

The City reports the following major governmental funds:

The General Fund is the primary operating fund of the City. It is used to account for all financial resources, except for those required to be accounted for in another fund.

The *Major Street Fund* is used to account for the maintenance and construction of the City's major street system.

The Local Street Fund is used to account for the maintenance and construction of the City's local street system.

December 31, 2004

The City reports the following major enterprise funds:

The **Sewer Fund** is used to account for the revenues and expenses for the operation of a sewer system.

The Water Fund is used to account for the revenues and expenses for the operation of a water system.

The Marina Fund is used to account for the revenues and expenses for the operation of a marina.

Additionally, the City reports the following fiduciary fund types:

The Police Pension Trust Fund accounts for the activities of the City's police retirement system.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do no conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

Assets, Liabilities and Equity:

<u>Deposits and Investments</u> — Cash and cash equivalents include cash on hand, demand deposits, certificates of deposit and short term investments with a maturity of three months or less when acquired. Investments are stated at fair value. For purposes of the statement of cash flows, the City considers all highly liquid investments (including restricted assets) with a maturity when purchased of three months or less and all local government investment pools to be cash equivalents.

<u>Interfund Receivables and Payables</u> – Generally, outstanding amounts owed between funds are classified as "due from/to other funds". These amounts are caused by transferring revenues and expenses between funds to get them into the proper reporting fund. These balances are paid back as cash flow permits.

<u>Inventories and Prepaid Items</u> – Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

<u>Capital Assets</u> – Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair market value at the date of donation. The City defines capital assets as assets with an initial individual cost in excess of \$1,000. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized. Public domain (infrastructure) assets (e.g., roads, bridges, sidewalks and other assets that are immovable and of value only to the government) are not capitalized. Capital assets are depreciated using the straight-line method over the following useful lives:

December 31, 2004

Buildings and improvements	25-75 years
Furniture and equipment	5-10 years
Infrastructure	25 years
Land improvements	20-50 years
Machinery and equipment	5-33 years
Utility systems and plants	25-75 years

<u>Compensated Absences</u> – It is the City's policy to permit employees to accumulate earned but unused sick and vacation days. A liability is recorded when incurred in the government-wide financial statements and the proprietary fund financial statements. A liability for these amounts is reported in the governmental funds only when they have matured or come due for payment – generally when an individual's employment has terminated as of year end.

<u>Long-term Obligations</u> – In the government-wide financial statements and the proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund statement of net assets.

<u>Fund Equity</u> – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Eliminations and Reclassifications:

In the process of aggregating data for the statement of net assets and the statement of activities, some amounts reported as interfund activity and balances in the funds were eliminated or reclassified. Interfund receivables and payables were eliminated to minimize the "grossing up" effect on assets and liabilities within the governmental activities column.

Property Taxes:

Property taxes attach as enforceable liens on properties as of December 31. The related property taxes are levied on September 1 and are payable from the date of levy through October 9 and are recognized as revenue the following year. The City bills and collects its own property taxes and also taxes for the county, school district, community college, the Ludington Area Mass Transit Authority, and the intermediate school district. Collections of all the taxes and remittances of them to the other taxing authorities are accounted for in an agency fund.

December 31, 2004

Revenues for 2004 include property taxes levied in 2003 but appropriated by a City ordinance to finance 2004 operations. Property taxes levied in 2004 for the operations of 2005 are a lien against properties and are an asset of the City. They are recorded as taxes receivable and deferred revenue at December 31, 2004.

In 2003, the City levied property taxes on an assessed property tax value of \$210,432,168. Taxes levied consisted of 11.5675 mills for the City's operating purposes, 2.7762 mills for refuse services, and .9961 mills for police pension.

NOTE 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information:

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

- 1. Prior to November 1 of each year, the City Manager submits to the City Council a proposed operating budget for the year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them.
- 2. During the month of November, the City Council holds open meetings to review the budget in detail and to obtain taxpayer comments.
- 3. At the first Council meeting in December, the budget is legally enacted by adoption of the City Council.
- 4. Any revision that alters the total expenditures of any fund must be approved by the City.
- 5. Formal budgetary integration is employed as a management control device during the year for the general fund, the special revenue funds, and debt service funds. Formal budgetary integration is not employed for other funds, but informational summaries are prepared for the enterprise, the internal service and other funds to serve as a management control device and are presented to the City Council for consideration.
- 6. Governmental fund budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. A comparison of actual results of operations to the General Fund and major Special Revenue Funds budgets as originally adopted and amended by the City Council is included in the required supplemental information.
- 7. All annual appropriations lapse at fiscal year end.

Excess of Expenditures over Appropriations in Budgeted Funds:

During the year, the City incurred expenditures that were in excess of the amounts budgeted, as follows:

Major Street Fund:	Final Budget	<u>Actual</u>	Actual Over aal Budget
Public works Capital outlay	\$ 276,100 174,000	\$ 276,156 509,863	\$ 56 335,863

December 31, 2004

State Construction Code Act:

The City oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and the cumulative surplus generated since January 1, 2000 is as follows:

Cumulative surplus at January 1, 2004	\$	_
Current year building permit revenue	•	11,670
Related expenses:		11,070
Direct costs 5	50,274	
Estimated indirect costs	-	
Total construction code expenses		50,274
Cumulative surplus at December 31, 2004	\$	-

NOTE 3: DEPOSITS AND INVESTMENTS

The City's deposits and investments at December 31, 2004 are included in the statement of net assets under the following categories:

	vernmental <u>Activities</u>	isiness-type <u>Activities</u>	tal Primary overnment	mponent it - DDA
Cash and cash equivalents	\$ 2,991,966	\$ 2,728,671	\$ 5,720,637	\$ 36,156
Investments	443,096	1,211,263	1,654,359	-
Restricted cash and cash equivalents	 7,137	 978,267	 985,404	 -
	\$ 3,442,199	\$ 4,918,201	\$ 8,360,400	\$ 36,156

Deposits:

The breakdown between deposits and investments for the City is as follows:

Bank deposits (checking accounts, savings accounts,	Primary overnment	Component <u>Unit</u>		
and certificates of deposit) Investments in securities, mutual funds, and	\$ 6,587,999	\$	36,156	
similar vehicles Petty cash and cash on hand	 1,771,641 760		-	
Total	\$ 8,360,400	\$	36,156	

December 31, 2004

The deposits of the primary government and component unit were reflected in the accounts of financial institutions (without recognition of checks written but not yet cleared or of deposits in transit) at \$6,661,050, of which \$582,684 is covered by federal depository insurance and the remainder was uninsured and uncollaterized. The City believes that due to the dollar amount of cash deposits and the limits of the FDIC insurance, it is impractical to insure all bank deposits. As a result, the City evaluates each financial institution with which it deposits City funds and assesses the level of risk each institution; only those institutions with an acceptable estimated risk level are used as depositories. To the extent that cash from various funds has been pooled, related investment income is allocated to each fund based on relative participation in the pool.

Investments:

State statutes authorize the City to invest surplus funds in certificates of deposit, savings accounts and deposit accounts with banks and savings and loan associations which are members of FDIC, credit unions which are insured by NCUA, bonds, bills or notes of the U.S., commercial paper rated within the 3 highest classifications established, U.S. or federal agency obligation repurchase agreements, bankers' acceptances and mutual funds composed entirely of the aforementioned investments that are legal for direct investment by a City.

Investments are categorized into these three categories of credit risk:

Category 1 - Insured or registered, or securities held by the City or its agent in the City's name;

Category 2 – Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the City's name; and

Category 3 — Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the City's name.

At year end, the City's investment balances were categorized as follows:

	44.00		Reported	
			3	Amount (Fair Value)
Primary government:				
U.S. government securities	\$ -	\$ 1,771,641	\$ -	\$ 1,771,641

NOTE 4: RESTRICTED ASSETS AND BOND RESERVES

There are a number of limitations and restrictions contained in the various bond indentures, including requirements to maintain certain restricted assets. The City is in compliance with all significant provisions of the bond indentures.

December 31, 2004

At December 31, 2004 the City had these accounts established and had restricted cash as follows:

	Cash and Cash Equivalents				
General Fund:					
Deposits - Land Sales	\$	7,137			
Sewer Fund:					
Bond Reserve		110,000			
Bond and Interest Redemption		92,250			
Equipment Replacement		327,004			
Water Fund:					
Bond Reserve		100,000			
Equipment Replacement		349,013			
	\$	985,404			

NOTE 5: CAPITAL ASSETS

Primary Government capital asset activity for the year ended December 31, 2004 was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance		
Governmental activities:				-		
Nondepreciable capital assets:						
Land	\$ 163,580	\$ -	\$ -	\$ 163,580		
Depreciable capital assets:						
Buildings and improvements	2,598,425	2,418,868	(140,000)	4,877,293		
Furniture and equipment	140,081	29,007	(4,269)	164,819		
Infrastructure	-	480,364	-	480,364		
Land improvements	123,760	102,930	-	226,690		
Machinery and equipment	3,760,543	178,334	(1,183)	3,937,694		
	6,622,809	3,209,503	(145,452)	9,686,860		
Total capital assets	6,786,389	3,209,503	(145,452)	9,850,440		
Accumulated depreciation	(2,776,370)	(278,240)	118,643	(2,935,967)		
Depreciable capital assets, net	3,846,439	2,931,263	(26,809)	6,750,893		
Governmental activities, capital						
assets, net	\$ 4,010,019	\$ 2,931,263	\$ (26,809)	\$ 6,914,473		

NOTES TO FINANCIAL STATEMENTS, CONTINUED December 31, 2004

	Beginning Balance		Additions		Retire	ments	Ending Balance		
Business-type activities:									
Nondepreciable capital assets									
Land	\$	867,055	\$	_	\$	-	\$	867,055	
Depreciable capital assets									
Buildings and improvements		4,076,142		-		_		4,076,142	
Land improvements		2,065,280		-		-		2,065,280	
Machinery and equipment		755,049		18,774		_		773,823	
Utility systems and plants		13,383,347		241,992		-		13,625,339	
		20,279,818		260,766		-		20,540,584	
Total capital assets		21,146,873		260,766		-	_	21,407,639	
Accumulated depreciation		(7,571,441)		(379,578)		-		(7,951,019)	
Depreciable capital assets, net		12,708,377		(118,812)				12,589,565	
Business-type activities, capital assets, net	\$	13,575,432	\$	(118,812)	\$	-	<u>\$</u>	13,456,620	

Depreciation expense was charged to functions as follows:

Governmental activities:

General government	\$	83,991
Public safety		58,085
Public works		102,423
Health and welfare		2,967
Community and economic development		15,672
Recreation and culture		15,102
Total governmental activities	\$	278,240
Business-type activities:		
Sewer	\$	156,424
Water		140,715
Marina	***	82,439
Total business-type activities	\$	379,578

December 31, 2004

NOTE 6: DEFERRED REVENUE

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Primary Government: Grant, program income, and general revenue payments received prior to meeting all		
eligibility requirements	<u>\$</u>	\$ 3,177,392
Component Unit: Grant, program income, and general revenue payments received prior to meeting all		
eligibility requirements	\$ -	\$ 26,255

NOTE 7: LONG-TERM LIABILITIES

The City issues bonds, notes, and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the City. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service. Other long-term liabilities include compensated absences.

NOTES TO FINANCIAL STATEMENTS, CONTINUED December 31, 2004

Long-term liabilities at December 31, 2004 consisted of the following:

Types of Indebtedness	Maturity	Interest Rates	Annual Principal Installments	Original Issue Amount	Outstanding at Year-End
Governmental Activities					
General Obligation Bonds:					
2000 Issue - Building Authority Bonds					
Serial Current Interest Bonds	8/1/04-8/1/19	5.125-5.5%	\$60,000-285,000	\$ 2,700,000	\$ 2,640,000
2003 Issue - Capital Improvement Bond					
Serial Current Interest Bonds	10/1/08	2%	\$800,000	800,000	-
Business-type Activities					
Revenue Bonds:					
1996 Issue - Sewage Disposal System					
Serial Current Interest Bonds	1/1/97-1/1/07	4.7-5.0%	\$75,000-90,000	700,000	175,000
1998 Issue - Water Supply System					
Serial Current Interest Bonds	2/1/99-2/1/09	4.25-4.3%	\$65,000-90,0000	700,000	400,000

The following is a summary of long-term liabilities transactions for the year ended December 31, 2004:

	Beginning Balance		Ad	Additions Retirements			_	Ending Balance		Due Within One Year	
Governmental activities:											
General Obligation Bonds:											
2000 Issue	\$	2,700,000	\$	-	\$	(60,000)	\$	2,640,000	\$	95,000	
2003 Issue		800,000		-		(800,000)		-		-	
Compensated absences		82,346		-		(2,053)		80,293		-	
Total governmental activities-											
long-term liabilities	\$	3,582,346	\$	-	\$	(862,053)	<u>\$</u>	2,720,293	<u>\$</u>	95,000	
Business-type activities:											
Revenue Bonds:											
1996 Issue	\$	255,000	\$	-	\$	(80,000)	\$	175,000	\$	85,000	
1998 Issue		465,000		-		(65,000)		400,000		70,000	
Compensated absences		33,549		2,787		-		36,336		· <u>-</u>	
Total business-type activities-											
long-term liabilities	\$	753,549	\$	2,787	\$	(145,000)	<u>\$</u>	611,336	\$	155,000	

December 31, 2004

Annual debt service requirements to maturity for the above bond and contractual obligations are as follows:

Year Ended	 Go	vern	mental Activ	itie	5		Business-type Activities						
December 31,	 <u>Principal</u>		Interest		<u>Total</u>		Total		Principal		Interest		Total
2005	\$ 95,000	\$	142,156	\$	237,156	\$	155,000	\$	22,223	\$	177,223		
2006	100,000		137,288		237,288		165,000		14,808	_	179,808		
2007	110,000		132,163		242,163		80,000		9,246		89,246		
2008	120,000		126,525		246,525		85,000		5,697		90,697		
2009	130,000		120,375		250,375		90,000		1,935		91,935		
2010-2014	845,000		484,545		1,329,545		-		-		_		
2015-2019	 1,240,000		214,225		1,454,225				-		-		
	\$ 2,640,000	<u>\$</u>	1,357,277	\$	3,997,277	\$	575,000	<u>\$</u>	53,909	\$	628,909		

The City has an installment purchase contract payable to West Shore Bank and Fifth Third Bank. The balance owed on these contracts as of December 31, 2004 is \$271,023. These liabilities were incurred for the purchase of fire truck and equipment for the Western Mason County Fire Authority (a joint venture). The fire truck and equipment, as well as the corresponding liabilities, have been assigned to the Authority. No capital assets or contracts payable are shown in the governmental activities of the governmental-wide financial statements.

NOTE 9: DISAGGREGATED RECEIVABLE AND PAYABLE BALANCES

Receivables and payables as of year end for the City's governmental and business-type activities in the aggregate are as follows:

	Governmenta <u>Activities</u>	l Business-type Activities
Receivables:		
Taxes	\$ 3,057,495	5 \$ -
Special assessments	8,775	
Interest	21,433	31,199
Accounts	43,634	,
Notes	19,568	,
Intergovernmental	289,930	
Total receivables	\$ 3,440,835	\$ 557,054
Accounts payable and accrued expenses:		
Accounts	\$ 4,937	\$ 30,828
Interest	59,232	
Deposits payable	1,200	2,400
Intergovernmental	11,998	
Total accounts payable and accrued expenses	\$ 77,367	\$ 33,228

December 31, 2004

NOTE 10: INTERFUND BALANCES AND TRANSFERS

There were no outstanding interfund receivable and payable balances at December 31, 2004.

Interfund transfers reported in the fund statements were as follows:

	Transfer From												
Transfer To		General Fund		Major	Pe	emetery erpetual Care		Sewer	Water		_	Total	
General Fund	- \$	-	\$	-	\$	4,900	\$	-	\$	-	\$	4,900	
Local Street		23,700		90,800		-			_	_	Ψ	114,500	
Nonmajor Governmental				,								114,500	
Recreation		54,600		-		-		_		_		54,600	
Senior Center		39,700		-		_		_		_		39,700	
Waterfront Development		33,600		-		_		_		_		33,600	
Building Authority Bonds		205,644		_		_		_		_		205,644	
Cartier Park Pathways		49,905		-		-		_		_		49,905	
Motor Pool		-				-		24,408		150,000		174,408	
	<u>\$</u>	407,149	<u>\$</u>	90,800	\$	4,900	<u>\$</u>	24,408	\$	150,000	\$	677,257	

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the various funds to finance various programs accounted for in other funds in accordance with budgetary authorizations.

NOTE 11: RISK MANAGEMENT

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation) and certain medical benefits provided to employees.

The City manages its liability, property, and worker's compensation risk by participating in Michigan Municipal Risk Management Authority, a public entity risk pool providing property, liability, and worker compensation coverage to its participating members. The City pays an annual premium to Michigan Municipal Risk Management Authority for its insurance coverage. The Michigan Municipal Risk Management Authority is self-sustaining through member premiums and provides, subject to certain deductibles, occurrence-based casualty coverage for each incident and occurrence-based property coverage to its members by internally assuring certain risks and reinsuring risks through commercial companies. Various deductibles are maintained to place the responsibility for small charges with the insured. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

December 31, 2004

NOTE 12: EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS

Defined Benefit Pension Plan (Michigan Municipal Employees' Retirement System):

Plan Description – The City contributes to the Michigan Municipal Employees' Retirement System, an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for governmental units in the State of Michigan. The system provides the following provisions: normal retirement, deferred retirement, service retirement allowance, disability retirement allowance, nonduty-connected death and postretirement adjustments to plan members and their beneficiaries.

All full-time employees, except policemen, are eligible to participate in the plan. Benefits vest after 10 years of service. The service requirement is computed using credited service at the time of termination of membership multiplied by the sum of 2.25 percent times the final average compensation (FAC) with a maximum benefit of 80 percent of FAC. The most recent period of which actuarial data was available was for the fiscal year ended December 31, 2003.

MERS was organized pursuant to Section 12a of Act #156, Public Acts of 1851 [MSA 5.333(a); MCLA 46.12 (a)], as amended, State of Michigan. MERS is regulated under Act No. 220 of the Public Acts of 1996, as emended, sections of which have been approved by the State Pension Commission. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the MERS at 447 North Canal Street, Lansing, Michigan 48917-9755.

Funding Policy – The obligation to contribute to and maintain the system for these employees was established by negotiations with the City Council and personnel policy, which does not require employees to contribute to the plan. The City of Ludington is required to contribute to an actuarially determined rate; the current rate was 16.80 of eligible payroll based on the December 31, 2003 valuation.

Annual Pension Costs – For year ended December 31, 2004, the City's annual pension cost of \$332,936 for the plan was equal to the required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2003, using the entry actual age cost method. Significant actuarial assumption used include: (i) an 8% investment rate of return; (ii) projected salary increases of 4.5% per year; and (iii) 2.5% per year cost of living adjustments. All are determined using techniques that smooth the effects of short-term volatility over a four year period. The unfunded actuarial liability is being amortized at a level percent of payroll on a closed basis. The remaining amortization period is 30 years.

Three year trend information as of December 31, follows:

	_	2004	_	2003	_	2002
Annual pension cost Percentage of APC contributed	\$	332,936 100%		302,018 100%	\$	257,168 100%
Net pension obligation		10070		10070		100%

December 31, 2004

City of Ludington Police Retirement System:

Plan Description - The City also operates the City of Ludington Police Retirement System, a single-employer retirement plan established under Act 345, PA of 1937 of the State of Michigan. The plan covers all full-time police employees of the City and is funded through an annual tax levy. The plan is a part of the City of Ludington reporting entity and its financial statements are included in the City's Statement of Net Assets for Fiduciary Funds.

Membership in the plan consisted of the following at December 31, 2004:

Retirees and Beneficiaries receiving benefits	13
Terminated plan members entitled to but not yet receiving benefits	-
Active plan members	<u>18</u>
Total	<u>31</u>

The City of Ludington Police Retirement System provides retirement benefits as well as death, disability, and health benefits. All benefits vest after 10 years of credited service. Employees who retire at or after age 50 with 25 years of credited service are entitled to an annual retirement benefit, payable monthly, in an amount equal to 2.5% of their average compensation for every year of credited service. The average is computed using the 3 highest compensated years out of last 5 years of employment. If an employee leaves covered employment or dies before 10 years of credited service, accumulated employee contributions plus related investment earnings are refunded to the employee or designated beneficiary.

Summary of Significant Accounting Policies and Asset Matters - The financial statements of the City of Ludington Police Retirement System are prepared using the accrual basis of accounting. Employee and employer contributions are recognized as revenues in the period in which employee services are performed.

Method Used to Value Investments - Investments of the plan are reported at fair value based on provided market values. Investment income is recognized as earned. The net appreciation in the fair value of investments is recognized as additions to assets. Gains and losses on the sale of securities are recognized on the transaction date. The plan, cash, cash equivalents, and investments at December 31, 2004 were as follows:

	Carrying <u>Amount</u>	Percentage of Carrying	Market <u>Value</u>	Percentage of Market
Cash and cash equivalents	\$ 108,099	3.33%	\$ 108,099	3.31%
Mutual funds	_3,133,400	<u>96.67%</u>	3,160,343	<u>96.69%</u>
	\$ 3,241,499	100.00%	\$ 3,268,442	100.00%

December 31, 2004

Contributions - The obligation to contribute to the system for these employees was established by negotiations between the City Council and the police bargaining unit (union contract). This contract requires the employees to contribute to the plan, at a rate of 5% of eligible payroll. The City is required to contribute based on a property tax levy of .9961 mills.

For the year ended December 31, 2004, the City made contributions of \$165,652 and employees contributed \$37,618.

Health Benefits - The City provides health insurance benefits as part of its retirement plan. These benefits are funded by investment income. The plan's health care costs for the year ended December 31, 2004 was \$56,589.

Post Employment Benefits:

According to the police employment contracts, the City provides police persons with partial payment toward the cost of health insurance after they qualify to retire and are retired from City employment. The City pays 50% of the health insurance cost up to a maximum of \$200 per month for those retired after 1993. Those who retired between 1989 through 1993 receive a maximum paid benefit of \$100 per month. Also, for other employees who retire with 20 or more years of service, the City will pay \$75 to \$150 per month.

The City is using a pay-as-you-go method for financing this benefit. Currently there are fourteen participants eligible to receive this benefit. During 2004, the City expended \$22,386 for this benefit.

Deferred Compensation Plan:

The City offers its employees a deferred compensation plan created in accordance with IRC Section 457. The plan, available to all employees, permits them to defer a portion of their current salary until future years.

The City adopted GASB Statement No. 32, Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans. The City has placed all Deferred Compensation Plan assets with a trustee, relinquishing all fiduciary accountability for the assets. Accordingly, the related assets and liabilities of the plan are not reported in the City's financial statements.

NOTE 13: FUND EQUITY

Specific reservations on fund equity include:

Reserved for prepaid expenditures – This reserve was created to indicate that the portion of fund balance represented by prepaid expenditures is not available for appropriation.

Reserved for inventory – This reserve was created to indicate that the portion of fund balance represented by inventory is not available for appropriation.

<u>Reserved for debt service</u> – This reserve was created to indicate that the portion of fund balance represented by debt service is not available for appropriation.

December 31, 2004

Reserved for nonexpendable cemetery principal – This reserve was created to indicate that portion of fund balance representing the nonexpendable principal portion required to be retained in perpetuity for cemetery care.

NOTE 14: PRIOR PERIOD ADJUSTMENTS

Reclassification of DPW Building:

In the prior year, construction expenses related to the DPW building was recorded in the Ludington Building Authority Capital Projects Fund. The construction expenses should have been recorded as construction in progress in the Motor Pool Internal Service Fund. The effect of this adjustment is as follows:

	I	oital Projects Ludington Building Authority		ernal Service Motor Pool
Fund balance/retained earnings, as previously stated, as of 12/31/03	\$	663,577	\$	3,002,904
Reclassify: Balance that should have been recorded in the Motor Pool internal service fund as of 12/31/03 Add: Construction expenses related to the DPW building recorded in 2003		(663,577)		663,577
that should be capitalized	-	-		884,055
Fund balance/Net assets, restated, as of 12/31/03	\$	_	<u>\$</u>	4,550,536

Change in Recognition of Sales Tax Revenue:

Recognition of state shared revenue payments of sales tax should agree with the State of Michigan's distribution periods. In prior years, the payment distributed in February for November/December collection period was recorded as revenue in the next year, or the year that it was received. In accordance with accounting principles generally accepted in the United States of America, this payment should be accrued to the prior year. The effect of this adjustment on General Fund fund balance is as follows:

Fund balance, as previously stated, as of 12/31/03	\$ 887,425
Add: State shared revenue for sales tax that should have accrued to prior year	149,460
Fund balance, restated, as of 12/31/03	\$ 1,036,885

December 31, 2004

Accounting Change:

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement No. 34, Basic Financial Statements – and Management Discussion and Analysis – for State and Local Governments (Statement). The City is required to implement the new requirements for the year ended December 31, 2004. The more significant of the changes to the financial statements as a result of the Statement are as follows:

For the first time, the financial statements will include:

- A Management Discussion and Analysis (MD&A) section providing an analysis of the City's overall financial position and results of operations.
- Government-wide financial statements prepared using full accrual accounting for all of the City's activities.
- Fund financial statements, consisting of a series of statements that focus on a government's major governmental and enterprise funds.

As a result of implementing the Statement, the following restatements were made to beginning fund balance and net asset accounts:

Fund Financial Statements:

The beginning net assets of the enterprise funds and of the internal service funds were derived by aggregating the previously reported retained earnings and contributed capital of those funds.

Government-wide Financial Statements:

Beginning net assets for governmental activities was determined as follows:

Fund balances of general, special revenue, debt service, capital projects and nonexpendable	
trust funds as of 12/31/03	\$ 2,250,240
Add: Governmental capital assets, including general fixed assets	3,767,145
Deduct: Accumulated depreciation as of 12/31/03 on above governmental capital assets	(785,504)
Add: Governmental internal service fund net assets as of 12/31/03	4,550,536
Add: Deferred revenue recognized as of 12/31/03	14,670
Deduct: Bonds payable as of 12/31/03	(3,500,000)
Deduct: Accrued interest payable on bonds as of 12/31/03	(64,513)
Deduct: Governmental compensated absences payable as of 12/31/03	(78,653)
Governmental net assets, restated, as of 12/31/03	\$ 6,153,921

CITY OF LUDINGTON

NOTES TO FINANCIAL STATEMENTS, CONTINUED

December 31, 2004

NOTE 15: FEDERAL GRANTS

During 2004, the City received a federal grant in the amount of \$336,404 passed through the Michigan Department of Treasury (MDOT) for a contracted project in its Major Street Fund. Contracted projects are defined as projects performed by private contractors paid for and administered by MDOT. Contracted projects are not subject to single audit requirements.

REQUIRED SUPPLEMENTAL INFORMATION

SCHEDULE OF PENSION PLAN FUNDING PROGRESS Year Ended December 31, 2004

Actuarial Valuation Date	12/31/2003	12/31/2002	12/31/2001
Actuarial Value of Assets	\$ 10,756,511	\$ 10,334,996	\$ 10,327,991
Actuarial Accrued Liability (AAL)	12,710,394	12,286,283	11,801,769
Unfunded AAL (UAAL)	1,953,883	1,951,287	1,473,778
Funded Ratio	85%	84%	88%
Covered Payroll	1,987,341	1,864,186	1,856,821
UAAL as percentage of covered payroll	98%	105%	79%

BUDGETARY COMPARISON SCHEDULE

	Rudgataa	l Amounts		Actual Over (Under)	
	Original	Final	Actual	Gver (Unaer) Final Budget	
Revenues:	Original		71ctaut	z mus Bruger	
Property taxes	\$ 2,977,300	\$ 2,983,300	\$ 2,983,956	\$ 656	
Licenses and permits	48,900	48,500	48,541	41	
Federal grants	4,000	4,000	26,395	22,395	
State grants	872,500	884,000	875,815	(8,185)	
Contributions from other units	10,000	10,000	10,000		
Charges for services	432,500	457,500	461,362	3,862	
Fines and forfeits	31,000	33,000	33,725	725	
Interest and rents	46,100	46,100	54,359	8,259	
Other revenue	77,400	959,400	949,038	(10,362)	
Total revenues	4,499,700	5,425,800	5,443,191	17,391	
Expenditures:					
Current:					
General government	1,180,900	1,121,100	1,120,077	(1,023)	
Public safety	1,385,700	1,340,800	1,339,573	(1,227)	
Public works	990,200	979,600	979,443	(157)	
Community and economic development	67,100	69,000	66,608	(2,392)	
Recreation and culture	402,400	376,700	374,928	(1,772)	
Other	80,600	82,600	82,146	(454)	
Capital outlay	22,200	24,300	22,937	(1,363)	
Debt service:			222 222		
Principal	-	800,000	800,000	- (50)	
Interest and charges		16,100	16,050	(50)	
Total expenditures	4,129,100	4,810,200	4,801,762	(8,438)	
Excess (deficiency) of	250 (22	C1 F C00	641.400	25.020	
revenues over expenditures	370,600	615,600	641,429	25,829	
Other financing sources (uses):			4,900	4,900	
Transfers in	(370,600)	(407,200)	(407,149)	4,900 51	
Transfers out					
Total other financing sources (uses)	(370,600)	(407,200)	(402,249)	4,951	
Net change in fund balance	-	208,400	239,180	30,780	
Fund balance, beginning of year, as restated	1,036,885	1,036,885	1,036,885		
Fund balance, end of year	\$ 1,036,885	<u>\$ 1,245,285</u>	\$ 1,276,065	\$ 30,780	

SPECIAL REVENUE FUND – MAJOR STREET FUND

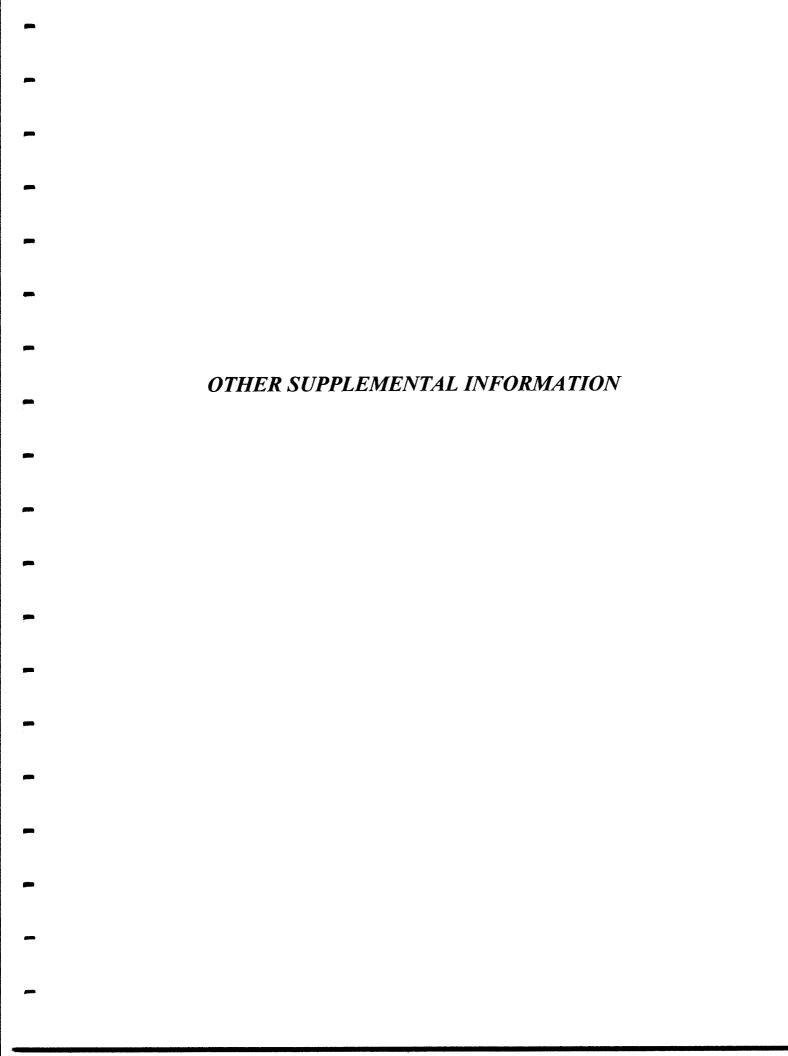
BUDGETARY COMPARISON SCHEDULE

	*****	Budgeted	Am	ounts				Actual er (Under)
		Original	_	Final		Actual	Fire	al Budget
Revenues:								
Federal grants	\$	-	\$	-	\$	336,404	\$	336,404
State grants		418,200		493,200		493,975		775
Interest and rents		8,000		8,000		8,719		719
Other revenue	_	1,500	_	5,500	_	5,429		
Total revenues		427,700		506,700		844,527		337,898
Expenditures:								
Current:								
Public works		336,900		276,100		276,156		56 225 962
Capital outlay				174,000	_	509,863		335,863
Total expenditures		336,900		450,100		786,019		335,919
Excess (deficiency) of								
revenues over expenditures		90,800		56,600		58,508		1,979
Other financing sources (uses):								
Transfers out		(90,800)		(90,800)		(90,800)		-
Total other financing sources (uses)		(90,800)		(90,800)	_	(90,800)		
Net change in fund balance		-		(34,200)		(32,292)		1,979
Fund balance, beginning of year		563,777		563,777		563,777	_	•
Fund balance, end of year	<u>\$</u>	563,777	\$	529,577	<u>\$</u>	531,485	<u>\$</u>	1,979

SPECIAL REVENUE FUND – LOCAL STREET FUND

BUDGETARY COMPARISON SCHEDULE

	Budgeted	Amounts		Actual Over (Under)	
	Original	Final	Actual	Final Budget	
Revenues:					
State grants	\$ 181,600	\$ 200,600	\$ 198,986	\$ (1,614)	
Interest and rents	300	300	2,726	2,426	
Total revenues	181,900	200,900	201,712	812	
Expenditures:					
Current:				(40.545)	
Public works	324,200	294,200	250,584	(43,616)	
Total expenditures	324,200	294,200	250,584	(43,616)	
Excess (deficiency) of					
revenues over expenditures	(142,300)	(93,300)	(48,872)	44,428	
Other financing sources (uses):					
Transfers in	114,500	114,500	114,500		
Total other financing sources (uses)	114,500	114,500	114,500		
Net change in fund balance	(27,800)	21,200	65,628	44,428	
Fund balance, beginning of year	70,985	70,985	70,985		
Fund balance, end of year	\$ 43,185	\$ 92,185	\$ 136,613	\$ 44,428	



DETAILED SCHEDULE OF REVENUES

Year Ended December 31, 2004

Revenues:	
Current taxes:	e 2042.000
Property taxes	\$ 2,943,880 29,405
Penalties and interest on taxes	10,671
Payment in lieu of taxes	
	2,983,956
Licenses and permits:	11.501
Nonbusiness licenses and permits	11,701
CATV franchise fees	36,840
	48,541
Federal grants:	
Police	12,370
Other	14,025
	26,395
State grants:	
Liquor license fees	9,376
State revenue sharing - sales tax	846,939
Other	19,500
	875,815
Contribution from other units:	
Downtown Development Authority - administration charges	10,000
Downtown Development Authority - administration charges	10,000
Changes for services	
Charges for services: Recreation fees	45,824
Cemetery fees	35,300
Police services and reports	73,093
Fire runs	14,753
Zoning/Variance/Appeals fees	2,300
Other	4,792
Charges to other funds	285,300
onangus to tante amates	461,362
Fines and Confeitures	
Fines and forfeitures:	13,870
Parking fines Ordinance fines	19,855
Ordinance lines	33,725
	33,723
Interest and rents:	50 400
Interest	52,499 1,860
Rents	
	54,359

continued

DETAILED SCHEDULE OF REVENUES, CONTINUEDYear Ended December 31, 2004

Other revenue:	
Special assessments	\$ 2,656
Sale of fixed assets	849,650
Cemetery lots/perpetual care	34,540
Contributions and donations	4,317
Reimbursements	16,431
Sidewalk construction	13,755
Commissions	27,689
	949,038
Total revenues	5,443,191
Other Financing Sources:	
Transfers from other funds	4,900
	4,900
Total revenues and other financing sources	\$ 5,448,091

DETAILED SCHEDULE OF EXPENDITURES

Expenditures:	
General Government:	
Council:	ф 20.000
Personnel	\$ 30,000
Fringe benefits	3,000 352
Supplies	2,880
Telephone	625
Transportation	125
Dues and memberships	1,163
Conferences and workshops	320
Other	
	38,465
Manager:	119 205
Personnel	118,395 56,607
Fringe benefits	1,589
Supplies	7,924
Contracted services	1,626
Telephone	4,200
Transportation	5,626
Dues and memberships	1,571
Conferences and workshops Other	272
Other	197,810
Clerk:	
Personnel	134,656
Fringe benefits	61,254
Supplies	8,543
Contracted services	33,514
Telephone	5,979
Dues and memberships	170
Conferences and workshops	61
Printing and publications	5,052
Equipment rental	3,051
Other	2,771
	255,051
Board of Review:	
Personnel	1,720
Fringe benefits	138
Supplies	32
Transportation	27
Printing and publications	202
Other	147
	2,266

Expenditures, continued:

GENERAL FUND

DETAILED SCHEDULE OF EXPENDITURES, CONTINUED

Experiences, continued.	
General Government, continued:	
Treasurer:	\$ 74,95
Personnel	34,12
Fringe benefits	3,12
Supplies	7,91
Contracted services	42
Telephone	12
Dues and memberships	9
Printing and publications	9
Other	
	120,86
Assessor:	92.22
Personnel	82,33
Fringe benefits	54,88
Supplies	3,22
Contracted services	12,24
Telephone	42
Transportation	39
Dues and memberships	95
Conferences and workshops	1,01
Equipment rental	5,15
	160,63
Elections:	
Personnel	6,90
Fringe benefits	13
Supplies	15
Contracted services	6
Printing and publications	44
· · · · · · · · · · · · · · · · · · ·	7,71
Buildings and Grounds:	
Personnel	55,93
Fringe benefits	24,55
Supplies	8,03
Contracted services	6,45
Telephone	40
Utilities	28,69
Repairs and maintenance	5,02
Equipment rental	19,22
Other	,
Other	148,33
Attorney:	49,53
Contracted services	-
	49,53

DETAILED SCHEDULE OF EXPENDITURES, CONTINUED

General Government, continued:	
Cemetery:	\$ 72,987
Personnel	32,529
Fringe benefits	4,342
Supplies	924
Contracted services	397
Telephone	30
Dues and memberships	8,667
Utilities Remains and maintenance	294
Repairs and maintenance	19,234
Equipment rental	139,404
	139,404
Total general government	1,120,077
Public Safety:	
Police:	
Personnel	808,153
Fringe benefits	213,694
Supplies	16,507
Contracted services	8,725
Telephone	7,138
Transportation	138
Conferences and workshops	610
Repairs and maintenance	2,472
Equipment rental	85,816
Other	4,064
	1,147,317
Fire:	
Personnel	66,696
Fringe benefits	12,133
Supplies	9,428
Contracted services	19,551
Telephone	5,190
Transportation	184
Dues and memberships	345
Conferences and workshops	603
Utilities	7,546
Repairs & maintenance	2,846 60
Equipment rental	1,458
Other	
	126,040
Protective Inspection and Regulation:	
Personnel	50,274
	50,274

DETAILED SCHEDULE OF EXPENDITURES, CONTINUED

Public Safety, continued: Other Public Safety:	
Other	\$ 15,942
	15,942
Total public safety	1,339,573
Public Works:	
Department of Public Works:	
Personnel	148,165
Fringe benefits	65,525
Supplies	8,414
Contracted services	5,187
Telephone	2,605
Printing and publications	81
Utilities	27,290
Repairs and maintenance	1,236
Equipment rental	70,040
Other	379
	328,922
Sidewalks:	
Personnel	200
Fringe benefits	90
Contracted services	23,254
Printing and publications	48
	23,592
Street Lighting:	02.460
Utilities	93,460
	93,460
Refuse:	57.0/0
Personnel	57,862
Fringe benefits	26,367
Supplies	1,509
Contracted services	342,452
Printing and publications	516 104 763
Equipment rental	104,763
	533,469
Total public works	979,443
Tomi paono nomo	

DETAILED SCHEDULE OF EXPENDITURES, CONTINUED

Community and Economic Development:	
Planning:	\$ 45
Personnel	Ψ
Fringe benefits	559
Supplies	2,917
Contracted services	690
Dues and memberships	1,332
Printing and publications	2:
Other	5,573
Economic and Industrial Development:	25.00
Personnel	35,28
Fringe benefits	16,073
Supplies	110
Contracted services	8,84
Telephone	170
Transportation	200
Conferences and workshops	34
	61,035
Total community and economic development	66,608
Total community and economic development Recreation and Culture:	
	66,60
Recreation and Culture:	
Recreation and Culture: Parks and Recreation: Personnel	99,40 43,36
Recreation and Culture: Parks and Recreation:	99,40 43,36 7,40
Recreation and Culture: Parks and Recreation: Personnel Fringe benefits Supplies	99,40 43,36 7,40 28,90
Recreation and Culture: Parks and Recreation: Personnel Fringe benefits Supplies Contracted services	99,40 43,36 7,40 28,90
Recreation and Culture: Parks and Recreation: Personnel Fringe benefits Supplies	99,40 43,36 7,40 28,90 97 23,66
Recreation and Culture: Parks and Recreation: Personnel Fringe benefits Supplies Contracted services Telephone Utilities	99,40 43,36 7,40 28,90 97 23,66 5,12
Recreation and Culture: Parks and Recreation: Personnel Fringe benefits Supplies Contracted services Telephone	99,40 43,36 7,40 28,90 97 23,66 5,12 52,77
Recreation and Culture: Parks and Recreation: Personnel Fringe benefits Supplies Contracted services Telephone Utilities Repairs and maintenance	99,40 43,36 7,40 28,90 97 23,66 5,12 52,77
Recreation and Culture: Parks and Recreation: Personnel Fringe benefits Supplies Contracted services Telephone Utilities Repairs and maintenance Equipment rental Life Guards:	99,40 43,36 7,40 28,90 97 23,66 5,12 52,77 261,62
Recreation and Culture: Parks and Recreation: Personnel Fringe benefits Supplies Contracted services Telephone Utilities Repairs and maintenance Equipment rental Life Guards: Personnel	99,40 43,36 7,40 28,90 97 23,66 5,12 52,77 261,62
Recreation and Culture: Parks and Recreation: Personnel Fringe benefits Supplies Contracted services Telephone Utilities Repairs and maintenance Equipment rental Life Guards: Personnel Fringe benefits	99,40 43,36 7,40 28,90 97 23,66 5,12 52,77 261,62
Recreation and Culture: Parks and Recreation: Personnel Fringe benefits Supplies Contracted services Telephone Utilities Repairs and maintenance Equipment rental Life Guards: Personnel Fringe benefits Supplies	99,40 43,36 7,40 28,90 97 23,66 5,12 52,77 261,62
Recreation and Culture: Parks and Recreation: Personnel Fringe benefits Supplies Contracted services Telephone Utilities Repairs and maintenance Equipment rental Life Guards: Personnel Fringe benefits	

DETAILED SCHEDULE OF EXPENDITURES, CONTINUED

Expenditures, continued: Recreation and Culture, continued:	
Launching Ramps:	
Personnel	\$ 27,062
Fringe benefits	5,379
Supplies	3,681
Contracted services	31,265
Telephone	985
Utilities	3,506
Repairs and maintenance	3,708
Equipment rental	8,642
• •	84,228
Total recreation and culture	374,928
Other:	
Insurance and Bonds:	
Insurance	82,146
	82,146
Total other	82,146
Debt Service:	
Principal	800,000
Interest and fees	<u>16,050</u> 816,050
Capital Outlay:	
General government	4,641
Public safety	8,624
Public works	130
Recreation and culture	9,542
	22,937
Total expenditures	4,801,762
Other Financing Uses:	
Transfers to other funds	407,149
	407,149
Total expenditures and other financing uses	\$ 5,208,911

NONMAJOR GOVERNMENTAL FUNDS

COMBINING BALANCE SHEET

December 31, 2004

	Special Revenue Funds									
	Recreation Fund			Senior Center Fund		Waterfront Playground Fund		Law Enforcement Training Fund		
Assets:	\$	35,381	\$	6,861	\$	23,878	\$	486		
Cash and cash equivalents Notes receivable	Ψ	-	•	-	•	-		-		
Interest receivable		224		43		151		3		
Due from other governmental units		2,500		1,359		-		-		
Prepaid expenditures				100		-		-		
Total assets	\$	38,105	\$	8,363	<u>\$</u>	24,029	\$	489		
Liabilities and Fund Balances: Liabilities:										
Accounts payable and accrued expenses	\$	1	\$	223	\$	1	\$	-		
Deferred revenue	•	1,425		2,067				-		
Total liabilities		1,426		2,290		1				
Fund balances:										
Reserved for:				100		-		_		
Prepaid expenditures Debt service		-		-		-		-		
Nonexpendable cemetery principal		-		-		-		-		
Unreserved:										
Special revenue funds		36,679		5,973		24,028		489		
Capital projects funds										
Total fund balances		36,679		6,073		24,028		489		
Total liabilities and fund balances	\$	38,105	\$	8,363	\$	24,029	\$	489		

	pecial nue Fund	Debt Service Fund			Capital Projects Funds						ermanent Fund				
Wa Dev	Waterfront Development Fund		Building Authority Bonds Fund		Authority Bonds		artier Park hways Sund	B	1984 uilding Rehab Fund		atchcase tamination Fund	P	emetery erpetual Care Fund	Gov	Total conmajor cernmental Funds
\$	23,227 - 147 66,302	\$	1 - - -	\$	- - - -	\$	57,159 19,568 - -	\$	190,254 - - - -	\$	233,961 - 1,481 -	\$	571,208 19,568 2,049 70,161 100		
<u>\$</u>	89,676	\$	1	\$	_	\$	76,727	\$	190,254	\$	235,442	\$	663,086		
\$	<u>-</u> 	\$	- - -	\$ 	-	\$	- 19,568 19,568	\$ 	- - -	\$		\$	225 23,060 23,285		
	- - -		- 1		- - -		- - -		- - -		- - 235,442		100 1 235,442		
	89,676 - 89,676		<u>-</u> 1		<u>-</u>	· 	57,159 57,159		190,254 190,254		235,442		156,845 247,413 639,801		
\$	89,676	\$	1	\$		<u>\$</u>	76,727	<u>\$</u>	190,254	\$	235,442	<u>\$</u>	663,086		

NONMAJOR GOVERNMENTAL FUNDS

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

	Special Revenue Funds							
	Re	creation Fund	Senior Center Fund		Waterfront Playground Fund		Law Enforcemen Training Fund	
Revenues:	\$	_	\$	7,433	\$	_	\$	_
Federal grants	Φ	<u>-</u>	Ψ	8,925	Ψ	-	•	3,160
State grants Contributions from other units		32,105		50,000		-		-
Charges for services		51,149		9,513		-		-
Interest and rents		1,327		554		488		5
Other revenue		4,860		34,076		159		
Total revenues		89,441		110,501		647		3,165
Expenditures:								
Current:								3,499
Public safety		-		122,860		- -		3,777
Health and welfare		-		122,800		2,757		-
Community and economic development		120,888		<u>-</u>		2,737		_
Recreation and culture		1,346		102,309		_		_
Capital outlay		1,540		102,507				
Debt service:		_		-		_		-
Principal		_		-		-		-
Interest and charges		122,234		225,169		2,757		3,499
Total expenditures		122,234		223,107		2,737	-	3,.,,
Excess (deficiency) of revenues over expenditures		(32,793)		(114,668)		(2,110)		(334)
Other financing sources (uses):								
Transfers in		54,600		39,700		-		-
Transfers out							-	
Total other financing sources		54,600		39,700		-		
Net change in fund balance		21,807		(74,968)		(2,110)		(334)
Fund balance, beginning of year		14,872		81,041		26,138		823
Fund balance, end of year	\$	36,679	\$	6,073	\$	24,028	\$	489

	Special Debt Service enue Fund Fund Capital Projects Funds								manent Fund		
Wa Deve	Waterfront Authority Development Bonds Fund Fund		Cartier Park Pathways Fund	1984 Building Rehab Fund		Watchcase Contamination Fund		Cemetery Perpetual Care Fund		Total Nonmajor Governmental Funds	
\$	-	\$ -	\$ 50,000	\$	196,024	\$	-	\$	-	\$	253,457
	68,418	-	-		-		-		-		80,503
	-	-	-		-		-		-		82,105
	-	-	-		-		-		8,620		69,282
	148	-	25		185		-		4,787		7,519
			3,000		65,268					_	107,363
	68,566		53,025		261,477		<u>-</u>		13,407		600,229
		_	_		_		_		-		3,499
	-	_	_		235,803		7,044		-		365,707
	12,490	_	_		_		-		-		15,247
	12,490	_	_		-		-		-		120,888
	-	-	102,930		-		-		-		206,585
	_	60,000	_		-		-		-		60,000
	_	145,644	-		-				-		145,644
	12,490	205,644	102,930		235,803		7,044		-		917,570
	56,076	(205,644)	(49,905)		25,674		(7,044)		13,407		(317,341)
	33,600	205,644	49,905		- -		-		- (4,900)		383,449 (4,900)
	<u> </u>		40.005						(4,900)		378,549
	33,600	205,644	49,905						(4,700)		310,317
	89,676	-	-		25,674		(7,044)		8,507		61,208
	-	1			31,485		197,298		226,935		578,593
\$	89,676	\$ 1	\$ -	<u>\$</u>	57,159	\$	190,254	<u>\$</u>	235,442	<u>\$</u>	639,801

FIDUCIARY FUNDS – AGENCY FUNDS

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES

	Beginning Balance	Additions	Deductions	Ending Balance
Bryant Road Property Fund				
Assets: Cash and cash equivalents	\$	\$ 52,295	<u>\$</u>	\$ 52,295
Liabilities: Accounts payable	<u>\$</u>	\$ 52,295	\$ -	\$ 52,295
Payroll Fund				
Assets: Cash and cash equivalents	<u>-</u>	\$ 3,213,007	\$ 3,213,021	\$ (14)
Liabilities: Salaries and wages payable	<u> </u>	\$ 3,213,007	\$ 3,213,021	<u>\$ (14)</u>
Current Tax Collection Fund				
Assets: Cash and cash equivalents	\$ 4,029,413	\$ 9,066,810	\$ 8,862,131	\$ 4,234,092
Liabilities: Due to other governmental units	\$ 4,029,413	\$ 9,066,810	\$ 8,862,131	\$ 4,234,092
Transportation Fund				
Assets: Cash and cash equivalents	\$ 2,000	<u> </u>	\$ -	\$ 2,000
Liabilities: Accounts payable	\$ 2,000	<u> </u>	\$	\$ 2,000
Fringe Benefits Fund				
Assets: Cash and cash equivalents Prepaid expense	\$ 1,000	\$ 1,407,347 15,179	\$ 1,408,347 	\$ - 15,179
Total assets	\$ 1,000	\$ 1,422,526	\$ 1,408,347	\$ 15,179
Liabilities: Accounts payable	\$ 1,000	\$ 1,422,526	\$ 1,408,347	\$ 15,179
				continued

FIDUCIARY FUNDS – AGENCY FUNDS

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES, CONTINUED

Total Agency Funds				
Assets: Cash and cash equivalents Prepaid expense	\$ 4,032,413	\$ 13,739,459 15,179	\$ 13,483,499	\$ 4,288,373 15,179
Total assets	\$ 4,032,413	\$ 13,754,638	<u>\$ 13,483,499</u>	\$ 4,303,552
Liabilities: Accounts payable Salaries and wages payable Due to other governmental units	\$ 3,000 - 4,029,413	\$ 1,474,821 3,213,007 9,066,810	\$ 1,408,347 3,213,021 8,862,131	\$ 69,474 (14) 4,234,092
Total liabilities	\$ 4,032,413	\$ 13,754,638	<u>\$ 13,483,499</u>	\$ 4,303,552

GOVERNMENTAL ACTIVITIES

SCHEDULE OF INDEBTEDNESS

December 31, 2004

2000 BUILDING AUTHORITY BONDS

Issue in the amount of \$ 2,700,000

Less: Principal paid in prior years Principal paid in current year (60,000)

Balance payable at December 31, 2004 <u>\$ 2,640,000</u>

Balance payable as follows:

Balance payable as	s ioliows:								Total
					Interes	st Di	ie		Annual
Year Ended	Year Ended Rate Principal		***************************************	<u>2/1</u>		<u>8/1</u>	<u>Requirement</u>		
2005	5.125%	\$	95,000	\$	71,078	\$	71,078	\$	237,156
2006	5.125%		100,000		68,644		68,644		237,288
2007	5.125%		110,000		66,081		66,082		242,163
2008	5.125%		120,000		63,263		63,262		246,525
2009	5.25%		130,000		60,188		60,187		250,375
2010	5.30%		145,000		56,775		56,775		258,550
2011	5.30%		155,000		52,933		52,932		260,865
2012	5.35%		170,000		48,825		48,825		267,650
2013	5.35%		180,000		44,278		44,277		268,555
2014	5.50%		195,000		39,463		39,462		273,925
2015	5.50%		215,000		34,100		34,100		283,200
2016	5.50%		230,000		28,188		28,187		286,375
2017	5.50%		245,000		21,863		21,862		288,725
2018	5.50%		265,000		15,125		15,125		295,250
2019	5.50%		285,000		7,838		7,837		300,675
		\$	2,640,000	\$	678,642	\$	678,635	\$	3,997,277

2003 CAPITAL IMPROVEMENT BONDS

Issue in the amount of \$800,000

Less: Principal paid in prior years - (800,000)

Balance payable at December 31, 2004 \$-

BUSINESS-TYPE ACTIVITIES

SCHEDULE OF INDEBTEDNESS

December 31, 2004

1996 SEWAGE DISPOSAL SYSTEM REVENUE BONDS

\$ 700,000 Issue in the amount of

(445,000)Principal paid in prior years Less:

(80,000)Principal paid in current year

175,000 Balance payable at December 31, 2004

Balance payable as follows:

Balance payable as	s tollows:								Total
	<u>Rate</u>			Interest Due				Annual <u>Requirement</u>	
Year Ended		<u>Principal</u>		<u>1/1</u>		<u>7/1</u>			
2005	4.80%	\$	_	\$	-	\$	4,332	\$	4,332
2006	4.90%		85,000		4,333		2,250		91,583
2007	5.00%		90,000		2,250				92,250
		\$	175,000	\$	6,583	\$	6,582	\$	188,165

1998 WATER SUPPLY SYSTEM REVENUE BONDS

700,000 \$ Issue in the amount of

(235,000)Principal paid in prior years Less: (65,000)Principal paid in current year

400,000 Balance payable at December 31, 2004

Balance payable as follows:

Balance payable as	s follows:				` <u>-</u> .	. 5			Total
Year Ended	<u>Rate</u>	<u>Principal</u>		<u> </u>		st Due <u>8/1</u>		Annual <u>Requirement</u>	
2005 2006 2007 2008 2009	4.25% 4.25% 4.30% 4.30%	\$	70,000 75,000 80,000 85,000 90,000	\$	8,564 7,076 5,483 3,762 1,935	\$	7,076 5,482 3,763 1,935	\$	85,640 87,558 89,246 90,697 91,935
2007		\$	400,000	\$	26,820	\$	18,256	\$	445,076



60 Harrow Lane Saginaw, Michigan 48603

(989) 791-1555 Fax (989) 791-1992

MANAGEMENT LETTER

To the Honorable Mayor and Members of City Council City of Ludington, Michigan

We have completed our audit of the financial statements of the City of Ludington for the year ended December 31, 2004, and have issued our report thereon dated March 3, 2005. As part of our examination, we made a study and evaluation of the City's system of internal accounting control to the extent we considered necessary to evaluate the system as required by generally accepted auditing standards. The purpose of our study and evaluation was to determine the nature, timing, and extent of the auditing procedures necessary for expressing an opinion on the City's financial statements. Our study and evaluation was more limited than would be necessary to express an opinion on the system of internal accounting control taken as a whole.

The City's administration is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments by the administration are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide the administration with reasonable, but not absolute assurance that assets are safeguarded against unauthorized use or disposition and that transactions are executed in accordance with the administration's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

Because of inherent limitations in any system of internal accounting control, errors or irregularities may, nevertheless, occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or the degree of compliance with the procedures may deteriorate.

Our study and evaluation made for the limited purpose described in the first paragraph would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system of internal accounting control of the City of Ludington taken as a whole. Our study and evaluation disclosed no conditions that we believe to be material weaknesses.

This report is intended solely for the use of the City management and should not be used for any other purpose.

We wish to extend our appreciation to you and your staff for the assistance accorded us during our examination.

Sincerely,

Berthiaume & Company Certified Public Accountants

Besthaum & Co.

March 3, 2005